

**ElectraNet SA**

**Submission to ACCC**

**Re**

**Murraylink Transmission Partnership's Application**

**for**

**Conversion to a Prescribed Service**

**and**

**Maximum Allowable Revenue**

**March 2003**

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## ELECTRANET SA - SUBMISSION

### 1. INTRODUCTION

- 1.1 ElectraNet would like to thank the ACCC for the opportunity to comment on Murraylink Transmission Partnership's ('MTP') application to convert its existing market network service (known as 'Murraylink') to a prescribed service.

#### *Precedent*

- 1.2 How the ACCC deals with MTP's application will obviously establish a precedent for future conversion applications. However, the approach adopted by the ACCC will also have wider implications. In particular, the approach adopted by the ACCC will impact upon:
- (a) the application of the regulatory test to prescribed services; and,
  - (b) the methodology which is used when setting a TNSP's revenue cap.

#### *Principles must be consistently applied*

- 1.3 It is critical to the efficient and equitable operation of the NEM that regulatory principles are applied consistently with respect to all Code participants. For example, if the ACCC were to determine a revenue cap for Murraylink which took into account costs which have not been allowed with respect to prescribed services to date, these additional costs would also need to be taken into account with respect to prescribed services in order to ensure that the NEM regulatory principles are consistently applied.
- 1.4 It would be inappropriate and inequitable to treat a network service provider wishing to convert a market network service to a prescribed service more favourably than a network service provider who was proposing to establish a similar prescribed service. Rather, the ACCC must ignore the fact that Murraylink has already been constructed when making its decision concerning the conversion application and applying the regulatory test. To do otherwise would confer an unfair advantage with respect to Murraylink as compared to similar regulated proposal.

#### *The benefits of regulated transmission development*

- 1.5 ElectraNet is strongly supportive of regulated transmission development. In particular, ElectraNet believes that the provision of 'least cost' transmission services will be best achieved through the co-ordinated provision and development of regulated transmission services.

For example:

- (a) co-ordinated planning between network service providers;
- (b) appropriate consultation with the market;
- (c) the optimal sizing of augmentations via the revenue setting and optimisation processes;

- (d) holistic asset management and efficient spares co-ordination by network service providers (thereby minimising the cost of holding spares within a NEM region); and
- (e) by avoiding duplication and over-designing/over servicing (i.e. 'gold plating').

## 2. SUMMARY OF CONCLUSIONS

### 2.1 ElectraNet considers that the ACCC should not support the conversion of Murraylink to a prescribed service for the following reasons:

- (a) Murraylink has not yet ceased to be a market network service as required under the clause 2.5.2(c) of the National Electricity Code ('NEC'). Nor has MTP given a binding undertaking to the ACCC that it will convert Murraylink to a prescribed service if the ACCC agrees to exercise its discretion in MTP's favour.
- (b) The ACCC has a discretion under clause 2.5.2(c) of the NEC. The ACCC must exercise its discretion in a manner which is consistent with the rationale underlying the inclusion of the conversion power. In particular, the conversion power should not be used to shield proponents from normal commercial risks or obtain a windfall gain.
- (c) The reasons provided by MTP in support of its application are inadequate. In our view, there is relatively less uncertainty now than there was when MTP made its original decision to proceed with Murraylink as a market network service. There have been no relevant changes to the NEC or the NEM environment which would justify the making of a conversion application.
- (d) ElectraNet supports the use of the regulatory test to determine whether MTP's conversion application should be permitted. However, the regulatory test was not designed to apply retrospectively. ElectraNet believes that its application in the current circumstances must be modified in order to ensure that an applicant for conversion is not treated more favourably than an applicant for the development of a regulated interconnector simply because the relevant assets have already been constructed.
- (e) The market as a whole should be no worse off and MTP should be no better off, than would have been the case if MTP had been required to comply with the full consultation and review process required under clause 5.6 of the NEC. That is, the level of review and testing applied to MTP should ensure that the net market benefit provided by the conversion of Murraylink will be the same as the net market benefit of a project which would have passed the regulatory test if MTP had been proposing to establish Murraylink now as prescribed service.
- (f) MTP's approach seeks to first establish the gross benefit to the market as a result of the operation of Murraylink as a prescribed service. MTP then seeks to quantify the gross market benefit. Finally, MTP argue that because the actual costs of Murraylink exceed the gross market benefit, the regulatory

costs of Murraylink for the purposes of the regulatory test and revenue cap process should be equal to the gross market benefit.

- (g) In our view, the conversion of Murraylink will not deliver any net benefit to the NEM. Rather, under MTP's approach any benefit to the market which may arise as a result of the conversion of Murraylink will be fully offset by the regulatory costs used to determine its revenue cap.
- (h) In our view, this will effectively result in a net detriment or cost to the market because:
  - (i) MTP has not demonstrate that any new market benefits will be provided by Murraylink when operating as a prescribed services as compared to the market benefits which are currently provided by Murraylink;
  - (ii) network users will now be required to pay for any market benefits regardless of the level of use of Murraylink; and
  - (iii) the conversion of Murraylink to a prescribed service must by definition constitute a transfer of commercial or financial risk from MTP to network users and ultimately consumers.

2.2 ElectraNet is concerned that Murraylink represents a sub-optimal development and if converted to a prescribed service may prevent the implementation of other network augmentations with demonstrable net market benefits (such as SNI).

### 3. **NEC ISSUES**

#### *Interpretation of clause 2.5.2(c) of the NEC*

- 3.1 The conversion of a market network service to a prescribed service is contemplated under clause 2.5.2(c) of the NEC and the ACCC's draft Statement of Regulatory Principles ('SoRP'). However, neither the NEC nor the SoRP contains any clear guidance as to when and how this process should proceed.
- 3.2 In particular, clause 2.5.2(c) does not:
  - (a) set out the criteria which must be satisfied before a conversion can take place; and
  - (b) specify the process and mechanism which must be applied by ACCC when exercising its discretion.
- 3.3 Clause 2.5.2(c) of the NEC provides that if an existing network service ceases to be classified as a market network service it may at the discretion of the ACCC be determined to be a prescribed service.
- 3.4 This wording suggests that the relevant network service must first cease to be classified as a market network service before it can be reclassified as a prescribed service.

- 3.5 We acknowledge that such a literal interpretation is unlikely to be applied. However, this wording does strongly suggest that:
- (a) the conversion power was intended for use when a market network service was at risk of failing to satisfy any of the requirements set out in clause 2.5.2(a) of the NEC (i.e. because the connection points for the two-terminal link will no longer be assigned to different regional reference nodes); and
  - (b) any application for conversion must be irreversible.
- 3.6 In other words, a MNSP should not be entitled to apply to the ACCC for conversion of its market network service to a prescribed service without also committing to proceed with the conversion once the revenue cap process is completed. This outcome is particularly relevant given the rationale underlying the inclusion of the conversion power in clause 2.5.2(c) of the NEC.

***Rationale underlying conversion power – regulatory risk***

- 3.7 The NECA Working Group on inter-regional hedges and entrepreneurial interconnectors noted in its November 1998 report entitled 'Entrepreneurial Interconnectors: Safe Harbour Provisions' that:
- " ... It might be argued that as well as the usual commercial risks, the proponent of a non-regulated interconnector may face additional risks related to market design deficiencies that may only become apparent once the first interconnectors are operational.*
- Providing a right to apply for regulated status may help ensure that investment is not inefficiently inhibited by such non-commercial market design risk. However, it is important that the conversion option should not shield the proponent from normal commercial risks, eg the risk of having over-judged the future demand for the interconnection service. It is therefore essential that the regulated revenue entitlement is based on the need for the facility at the time of the application, rather than guaranteeing a return on the original capital cost."*

- 3.8 The ACCC also commented in its determination concerning the market network service provisions of the NEC that:

*'The provision to allow market network services to apply for conversion to prescribed network services reflects the view that MNSPs may face risk from future NEM developments, such as changes to regional boundaries, which may result in market network services becoming non-code compliant.'*

- 3.9 These comments suggest that the inclusion of an ability to apply for a conversion was intended to mitigate against regulatory risks rather than commercial risks.

***Rationale underlying conversion power – impact on ACCC's discretion***

- 3.10 Whilst clause 2.5.2(c) does not contain any express criteria concerning the exercise of the ACCC's discretion, it is implicit from the ACCC's own comments and the rationale underlying the inclusion of clause 2.5.2(c) that it would be inappropriate for the ACCC to exercise its discretion to convert a market network service to a

prescribed service unless the applicant was able to satisfy the ACCC that its application was not motivated by the desire to mitigate commercial risk or obtain a windfall gain from the conversion process.

3.11 MTP suggests in its application that it is applying for conversion of the Murraylink market network service due to a 'high level of uncertainty, particularly in relation to the interaction between the competitive and the regulated segments' of the NEM. In our view, the level of uncertainty has probably decreased rather than increased over the last three years. In any event, this level of uncertainty existed and was clearly apparent at the time that MTP made its original investment decisions.

3.12 MTP's application appears to be predicated on an assumption that some aspect of the regulatory arrangements have changed over the last three years which has given rise to the need for this conversion application. However, apart from the brief reason referred to above, MTP has provided no other justification for its application.

*ACCC's discretion under clause 2.5.2(c)*

3.13 Clause 2.5.2(c) establishes a two stage process for conversion. That is:

- (a) the ACCC is given a discretion as to whether to determine that a particular market network service should become a prescribed service; and
- (b) if the ACCC determines that a market network service should be converted to a prescribed service, the ACCC is then required to determine the revenue cap or price cap which should apply to that prescribed service.

3.14 We have assumed that the ACCC would be guided in the exercise of its discretion by the rationale underlying the inclusion of this conversion power. However, we also believe that consideration should be given to amending clause 2.5.2(c) to include the minimum criteria which must be satisfied before the ACCC can exercise this discretion.

3.15 For example, an applicant for conversion should be required to demonstrate a level of bona fides. That is, the developer of an interconnector should not be permitted to bypass the current consultation, approval and regulatory test processes by electing to establish a market network service and then apply for conversion. We suggest that at the very least there should be some minimum period of time during which a market network service provider should not be permitted to lodge a conversion application.

3.16 MTP's submission appears to assume that the ACCC does not have a discretion to refuse an application to convert if the regulatory test is applied to calculate an appropriate revenue cap for Murraylink. ElectraNet does not agree with this approach.

3.17 In our view, it is open to the ACCC to decide not to exercise its discretion. More importantly, MTP's application must be assessed in the same manner as would apply to an application to establish a regulated interconnector. In particular, the fact that Murraylink has already been constructed should not colour or influence the ACCC's consideration of the conversion application. To do otherwise, would introduce a bias in favour of the application of the regulatory test to existing assets.

3.18 For example, when assessing an application to convert a market network service to a prescribed service, the size of the market network service should not establish the

optimum size of the regulated augmentation for the purposes of the regulatory test. Rather, the regulatory test should be applied to identify (in terms of capacity, timing etc) the alternative proposal which maximises the net market benefits taking into account the requirements of the market at that time.

***Regulatory Test – general considerations***

- 3.19 It is obviously important to bear in mind the original purposes underlying the development and application of the regulatory test when applying that regulatory test to Murraylink.
- 3.20 In particular, the regulatory test was designed to ensure that the transmission system was developed in a manner which:
- (a) is cost effective and maximises the net benefits to the market by preventing over capitalisation or 'gold plating' (i.e. by providing a functionality beyond that which would be justified by the application of the regulatory test); and
  - (b) in the case of a transmission development which is required to satisfy the technical and reliability standards for the power system set out in Schedule 5.1 of the NEC, minimises the cost to the market in relation to that transmission development.
- 3.21 In making an assessment concerning a development, the regulatory test requires the augmentation to be considered in terms of timing, capacity, technology and cost so as to achieve the optimum outcome to the market.

***Regulatory Test- reliability augmentations***

- 3.22 Under the regulatory test, an augmentation is required to maximise the net present value of the market benefit in all cases other than where the augmentation is proposed to meet a service standard referred to in Schedule 5.1 of the NEC (**reliability augmentation**).
- 3.23 In the case of a reliability augmentation, the proposal is not required to maximise the net present value of the market benefit, but rather minimise the net present cost of meeting the relevant service standard.
- 3.24 MTC's approach appears to adopt aspects of both arms of the regulatory test even though MTC has acknowledged in its application that the services provided by Murraylink are not solely related to the Schedule 5.1 service standards and that the market benefit approach is applicable to Murraylink..
- 3.25 In our view, the maximisation of net present market value rather than the minimisation of the net present cost is the appropriate regulatory test to apply to Murraylink. Accordingly, the ACCC must consider both the benefits as well as the costs associated with alternative projects. To focus only on the costs of alternative projects would only be appropriate if Murraylink was a reliability augmentation.
- 3.26 ElectraNet is concerned that the application of the regulatory test in the manner proposed by MTP would result in the sub-optimal development of the NEM transmission system and the market as a whole.



- 3.27 The MTP approach bypasses the application of the regulatory test as it applies to all other NSPs operating in the NEM. In addition, the MTP approach does not deliver any net benefit to the market because under the MTC approach any market benefits provided by the augmentation are completely offset against the regulatory cost.

***Impact on alternative projects***

- 3.28 If Murraylink is granted regulated status under the arrangements proposed by MTP, this in itself could result in alternative projects that have or would have passed the regulatory test not being implemented or being implemented in a sub-optimal manner. These projects would have provided a net benefit to the market, which Murraylink does not.
- 3.29 An example of the above is the impact which the conversion of Murraylink to a prescribed service would have on the SNI development. The SNI project undertook and passed the regulatory test implemented by the IRPC and NEMMCo in December 2001.
- 3.30 SNI, in conjunction with SNOVIC 400 was found to maximise the benefit to the NEM if implemented in 2006. It should be noted that the Murraylink development was included in the SNI regulatory test evaluation base case analysis as an MNSP.
- 3.31 However, the implementation of SNI has been frustrated by an appeal to the National Electricity Tribunal (NET) by Murraylink. The NET upheld NEMMCo's decision and Murraylink has subsequently appealed this outcome to the Supreme Court (further delaying the implementation of SNI).

It is notable that the same company that is arguing against the validity of the well publicised and documented regulatory test applied to SNI is now seeking to have Murraylink converted to a prescribed service via a new and untried process which relies upon that same regulatory test.

***Asset value***

- 3.32 ElectraNet considers that the regulatory asset value applied to Murraylink (which will directly determine the costs which will ultimately be borne by consumers) should be that value which is necessary to ensure that Murraylink provides the same net benefit to the market as the best alternative project that would pass the regulatory test.
- 3.33 If the gross market benefit delivered by a regulated Murraylink would be less than the gross market benefit delivered by the best alternative proposal that would pass the regulatory test, then the regulatory cost of Murraylink would have to be discounted to ensure that the same net market benefit is conferred on the market.
- 3.34 The implementation of the SNI project will be significantly impacted if Murraylink obtains regulated status as opposed to its present status as a market network service. The impact of having two regulated links in close proximity to each other has not been assessed but conceivably, such a change in circumstances could greatly impact on the net market benefit that SNI would otherwise provide to the point that SNI may no longer be viable.
- 3.35 NEMMCo determined that the net market benefit attributable to SNI over a range of market scenarios was \$ 33.6 M to \$ 134.9 M. SNI has already passed the regulatory

test. If Murraylink is to be converted to a prescribed service it must provide at least the same net market benefit as the most likely net benefit that SNI would provide. In addition, the regulated asset value assigned to Murraylink should not exceed \$110 M (being the estimated cost of SNI).

- 3.36 If the net market benefit provided by Murraylink is less than that provided by SNI using this regulated asset value of \$110M, it would be necessary to further discount the regulated asset value to ensure that the same net market benefit that would apply to SNI would be obtained if Murraylink was converted to a prescribed service.

#### ***Consultation requirements***

- 3.37 Network service providers are required under clause 5.6 of the NEC to undertake a detailed consultation process prior to proceeding with any network augmentations or extensions. This consultation process is well defined and allows an opportunity for interested parties to provide input concerning the relevant proposal and to measure the proposal against the regulatory test criteria.
- 3.38 A market network service provider is not required to undertake a similar consultation process.
- 3.39 It would be inequitable and inappropriate for a network service provider seeking to convert a market network service to a prescribed service to be excused from the requirement to undertake the same level of consultation and be exposed to the same level of scrutiny.
- 3.40 MTP has not undertaken any public consultation in relation to Murraylink (in the manner which would have been required if Murraylink had been a regulated network investment). Murraylink is now presented as a fate-accompli. In our view, all interested parties should now be given the same opportunity to comment as would have been the case under the normal NEC processes for regulated network investments prior to the conversion and revenue setting processes.
- 3.41 A requirement to undertake a detailed and independently assessed consultation and approval process is even more critical where the financial risk in relation to the proposed development is effectively being transferred to all network users and ultimately consumers (as is the case of application to convert a market network service to a prescribed service).

#### **4. MTP's PROPOSED CONVERSION PROCESS**

##### ***Market Benefit***

- 4.1 ElectraNet agrees that the regulatory test applying to a regulated investment should also be applied to determine whether MTP's conversion application should be granted. However, the regulatory test was not designed to apply retrospectively to an existing asset.
- 4.2 Consequently, the NEC has provided the ACCC with broad discretion in this regard. Given the untried nature of this process, ElectraNet suggest that the ACCC use such discretion with extreme caution. It is also important for the ACCC to adopt an

approach which does not confer an effective advantage on an application for conversion as compared to an applicant to establish a regulated interconnector.

***Zero net benefit under MTP approach***

- 4.3 MTP proposes a backwards-looking process that equates the market benefit to the economic cost of the project, in effect resulting in zero net benefit to the market (i.e. no net benefit to the market arises because the same benefits provided by Murraylink continue to be provided after conversion at a cost which absorbs all of the current market benefit). This raises the question as to why the conversion should occur in the first place.
- 4.4 However, the conversion of Murraylink must also involve the transfer of commercial risk from MTP to network users. Therefore, even if Murraylink's process was followed it would still be necessary to fix the regulatory costs at a lower level in order to take into account this transfer of risk.
- 4.5 This approach is clearly inconsistent with the normal regulatory process of optimising the design, capacity, technology, and project implementation to ensure that the net market benefit is maximised. The MTP process does not include this important step.
- 4.6 For example, MTP's acceptance that the economic value of Murraylink is less than its cost recognises that Murraylink is over-designed and over-capitalised.

***Benefits of conversion***

- 4.7 As noted above, the reasons for MTP wishing to convert Murraylink to a prescribed service should be relevant to the exercise of the ACCC's discretion.
- 4.8 For example, during the development and construction of Murraylink, MTP emphasised on a number of occasions that the developers of Murraylink rather than consumers would bear the financial and commercial risks associated with the development and operation of Murraylink. Murraylink has now been trading in the NEM for nearly 6 months and we understand that its revenues have been well below original expectations.
- 4.9 It would also be reasonable to assume that MTP would not be applying to convert Murraylink to a prescribed service if it could obtain greater revenues by operating Murraylink as a market network service (bearing in mind that MTP would be entitled to obtain revenue at commercial rates for the provision of other services such as grid support, voltage control, NCAS etc regardless of whether it was a market network service or a prescribed service).
- 4.10 In its submission MTP states that the regulatory cost that it has derived for Murraylink (being approximately \$215 M) is less than the actual capital cost of constructing Murraylink. This implies that there is some level of sub-optimal investment involved which is presently being borne by MTP.
- 4.11 Given that MTP appears willing to convert Murraylink to a prescribed service at a regulatory cost which is less than the actual cost of construction, it would be reasonable to assume that MTP is expecting to obtain lower revenues by providing market network services and other services to the NEM on a commercial basis than it would if Murraylink were a prescribed service.

- 4.12 The additional market benefit that can be obtained from operating Murraylink as a prescribed service as opposed to a market network service has not been identified or quantified. However, it is conceivable that this value is lower than the difference that presently exists between Murraylink's actual and forecast performance and the regulated revenues being claimed by MTP.
- 4.13 If this is the case then the market will in fact incur an additional loss as a result of the conversion and absorb some of the financial risk presently being faced by MTP. This possibility needs to be carefully considered by the ACCC in its deliberations.

***Murraylink's market benefit***

- 4.14 Murraylink is presently operating in the NEM and consequently already delivering benefits to the market. This raises the question as to whether the benefit attributable to Murraylink if it converts to a prescribed service should be:
- (a) simply the incremental benefit the market would obtain from the conversion,
  - (b) the total benefit that Murraylink presently provides to the market (as measured by its present revenue as an MNSP plus the incremental benefits of conversion), or,
  - (c) a theoretical benefit calculated as though Murraylink was not in service at all?
- 4.15 ElectraNet considers that option (b) would be the most appropriate method for determining the market benefit of Murraylink.
- 4.16 A significant factor in determining the economic value of Murraylink should be the revenues it presently obtains as an MNSP as this would logically represent a surrogate of the "energy" and "fuel" benefit it has the potential to provide.

***Lack of scenario's examined***

- 4.17 MTC's submission is based on a very limited number of market scenarios and alternative network and non-network options. ElectraNet does not believe that this level of analysis is sufficient to comply with the requirements and intent of the ACCC's regulatory test.
- 4.18 It is our view that additional market scenarios, and alternative developments (together with a full assessment of the net market benefit associated with those developments) should be undertaken when determining the economic value of Murraylink. Appropriate sensitivity analysis should also be undertaken to test the robustness of all assumptions made.

***Deep network utilisation***

- 4.19 MTC has constructed an asset that utilises the existing transmission network. That network is funded by existing NEM participants and ultimately consumers via regulated transmission charges. Despite this fact, MTP is claiming the full benefit in its submission for the use of the existing transmission network. ElectraNet does not consider this approach to be appropriate and suitable discounts should be applied by the ACCC to the benefit claimed by MTP in order to compensate existing network users for their contribution towards the cost of the existing transmission network.

## 5. MTP's SUBMISSION TO ACCC

### *Murraylink's timing, environmental and technical attributes*

- 5.1 We note MTPs claim that it was able to bring Murraylink into service in record time while gaining community acceptance and environmental awards. ElectraNet suggests that this was made possible in part due to the fact that market network services are able to by-pass the strict consultation processes and the regulatory test requirements applying to regulated assets.
- 5.2 ElectraNet is also concerned that such rapid implementation has been obtained through the sub-optimal investment in underground cables and HVDC technology. Whilst these actions would have assisted in achieving the early implementation of Murraylink:
- (a) no justification has been provided in the context of the current NEC or regulatory processes for such a rapid implementation; and
  - (b) no analysis has been undertaken in order to determine what the optimal timing would have been for Murraylink if it was a regulated investment.

It is possible that such rapid implementation by MTP was driven by the commercial advantages they perceived where available by having Murraylink enter the NEM at the earliest possible time.

- 5.3 ElectraNet notes that the Murraylink HVDC Light installation is the first installation in the world of its kind in terms of unit size and capacity. We also note that the claimed availability of Murraylink of 97% (despite the utilisation of expensive underground cables and HVDC technology) is significantly less than conventional overhead AC technology where circuit availability figures of 99.25% are required (in the case of ElectraNet transmission lines). Yet MTP claims in its submission that the Murraylink equipment was designed to provide low maintenance and high service levels.
- 5.4 Whilst MTP claim the cable has been designed and manufactured for a 40 year life, such claims are yet to be proved given the relatively new technology of the cable, its manufacture, and the use of HVDC light with such cables. There is also a significant length of underground cable involved (approximately 360 km route kilometres) which contains numerous joints. It should be recognised that any fault in the cable has the potential to result in lengthy repair times and a total lack of availability of Murraylink.
- 5.5 In section 2.5 of its submission MTP claims to have funded major transmission system augmentations in South Australia and Victoria. While MTP has contributed towards the cost of some of the assets involved, it should be noted that the advent of Murraylink gave rise to the immediate need to upgrade or modify these assets. Yet MTP now wishes to absorb the total benefit provided by all of the existing network that has been utilised in permitting Murraylink to operate, regardless of:
- (a) its level of contribution to the costs of that network; and

(b) the fact that this network is primarily funded by other Code participants and consumers.

5.6 In section 2.6 of its submission MTP claims that Murraylink has a number of important features (such as custom made underground cables buried to greater than normal depth). In ElectraNet's view this implies over-design and sub-optimal augmentation of the network. In examining the net benefits that Murraylink provides to the market, the use of specialised underground cable and technology must be questioned, and if found in-appropriate, the value of this should be optimised down to the least cost technically acceptable alternative.

5.7 This view appears to be confirmed by MTP's admission that the capital cost of Murraylink exceeds the regulatory costs/gross market benefits which MTP are claiming in its conversion application in relation to Murraylink.

### ***Murraylink connection and operation***

5.8 ElectraNet agrees with the findings of PB Power that additional dynamic simulation studies are required to adequately assess the capability of Murraylink. This view would seem to be consistent with that of PTI who undertook only limited loadflow analysis to verify the work undertaken by TEA. ElectraNet is not aware that any of the IOWG's findings concerning Murraylink's capability have been superseded by subsequent studies undertaken by the IOWG or its representative organisations.

5.9 ElectraNet notes the comments made in the PTI Power Transfer Studies Report that the base case loadflow study provided by TEA included overloads and voltage violations under normal system operating conditions without Murraylink being in service. This would appear to indicate that the existing network does not comply with the technical requirements of the NEC. Alternatively, it is possible that the base case is not sufficiently accurate for the studies being undertaken. This aspect should be checked with the relevant network owners.

5.10 It is also of concern that these apparent violations in the technical standards were ignored when determining the Murraylink transfer capability and the network augmentations needed to achieve MTP's desired levels.

5.11 The PTI report mentions cases where network elements are already heavily loaded and this situation is further exacerbated by the operation of Murraylink. The implication of this being that Murraylink should not be responsible for the cost of the augmentation needed to overcome these overloads. ElectraNet does not support this view and considers that Murraylink should be responsible for any advancement costs associated with any network augmentation that is required due to the operation of Murraylink.

5.12 ElectraNet considers that the study approach adopted by PTI in regard to voltage drop is inconsistent with the requirements of the NEC. The NEC requires network voltages to be maintained within 90% to 110% of nominal under both system normal and contingency conditions. Voltage drop is to be maintained within the requirements of AS2279 (now ASNZ6100). The criteria used by PTI appears to allow a 10% short term voltage drop beyond a fixed 10% voltage drop to occur following a contingency. This level is in excess of that permitted by the standards.

- 5.13 ElectraNet also highlights that dynamic simulation studies are required to take into account the additional voltage drop that arises as a result of inter-area power swings that occur following a disturbance on the power system.
- 5.14 ElectraNet notes that Murraylink has identified \$8.97 M of additional network augmentation to enhance the transfer capability of Murraylink. ElectraNet considers that the level of expenditure on these embedded network augmentations, and the technical viability of installing these assets in the locations needed should be assessed by the affected TNSP's to verify the costs mentioned.
- 5.15 It is a requirement of the NEC that the IRPC undertake a technical review of all augmentations that have the potential to impact on inter-regional transfer capabilities. Given the nature of the augmentations being proposed and the purpose for which they are being proposed, this would seem to be a necessary step that should be undertaken to determine if these proposals are in fact the most appropriate.
- 5.16 In addition, there is every likelihood that the augmentations being proposed by MTP will trigger the need to undertake a public consultation and the regulatory test in accordance with clause 5.6 of the NEC. The MTP assessment does not allow for this to occur and assumes that the works are in service when determining the market benefit of Murraylink. This would seem to be both presumptuous and in error.
- 5.17 Whilst MTP have identified the expenditure of \$8.97 M on network augmentations, we are unsure where this expenditure has been accounted for when deriving the net market benefit for Murraylink?
- 5.18 MTP has additionally identified several transmission lines and protection systems that require upgrading in order to achieve the stated link transfer capabilities. ElectraNet considers that the cost and practicalities of such upgrades should be determined by the affected Network Service Providers.
- 5.19 In its submission to the ACCC, MTP claim that Murraylink can deliver up to 220 MW to the SA region under summer peak load conditions. Work undertaken by ElectraNet shows that the capability of Murraylink to deliver power into the SA region is limited by conditions in the Victorian region and by primary plant ratings within the South Australian network. Within the SA power system the SA import capability is dependent on the load in the Riverland and adheres to the following equation;

$$MI = 184.63 + 0.7833RL$$

Where RL is the Riverland Load expressed in MW.

- 5.20 As can be seen from this equation, the capability of Murraylink to deliver power to South Australia will be limited to values less than 220 MW at times of light load in the Riverland (less than 45 MW).
- 5.21 MTP claims that the capability of Murraylink to export power from SA is limited by the pre-contingent loading of the 132 kV network between Robertstown and North West Bend and can be described by the following equations;

$$ML = 222 - RL \text{ (Summer)}$$

with an upper limit of 150 MW.

$$ML = 280 - RL \text{ (Winter)}$$

- 5.22 Work undertaken by ElectraNet shows that the Murraylink export capability is typically limited by primary plant ratings at North West Bend and adheres to the following equation;

$$ML = 155.27 - 0.9238RL$$

- 5.23 As can be seen the ElectraNet equation produces lower capabilities than the MTP equation. It is our understanding that the ElectraNet equations have been implemented in the NEMMCo dispatch systems and for that reason should also be used when determining any market benefit associated with Murraylink.
- 5.24 We note that in its submission MTP has assessed Murraylink's transfer capability under the network conditions and forecast loads that apply in summer 2003/04. As a general rule, the available capacity of a network will decrease as load grows. This should be taken into account when undertaken a market benefit analysis that extends well into the future.
- 5.25 In obtaining the desired Murraylink transfer capabilities MTP has assumed maximum dispatch conditions from Snowy Hydro and Southern Hydro generating units. These typically operate are peaking generators. The dispatch from these generating plants would be controlled by the market and cannot be guaranteed. Therefore, any market benefits model will need to allow for the fact that the level of despatch from these units which vary depending upon the market scenario that applies at that time.

#### *Operation and maintenance*

- 5.26 MTP claims that Murraylink was designed and built as a highly efficient asset requiring minimal operating and maintenance activities. However, MTP also admits that the actual capital value of Murraylink exceeds the market benefits MTP associated with Murraylink. This over-investment in Murraylink, together with the choice of technology and equipment made by MTP could result in higher than justifiable maintenance costs.
- 5.27 No regulatory test was undertaken for Murraylink prior to its construction and MTP were responsible for the timing of the investment, and the selection of the plant and technology involved. On this basis it would seem to be inappropriate to have consumers pay for the cost of any inefficient operating and maintenance costs associated with Murraylink. Rather, consumers should only be required to pay the O&M costs that would have been attributable to an efficient augmentation that passed the regulatory test.
- 5.28 Given the relatively low availability claimed for Murraylink of 97%, there would seem to be reasonable scope for efficiency improvements.
- 5.29 ElectraNet considers that the service standards that would apply to an efficient augmentation which passes the regulatory test should apply to Murraylink given that MTP chose the type and technology of its installation. Any such service standards should be consistent with those that apply to other TNSPs operating within the NEM.
- 5.30 Murraylink is connected at the extremities of the South Australian and Victorian transmission systems and as a consequence relatively high transmission losses are incurred in transferring power to and from Murraylink. ElectraNet is unsure of how the electrical losses have been accounted for in MTP's submission, and the accuracy

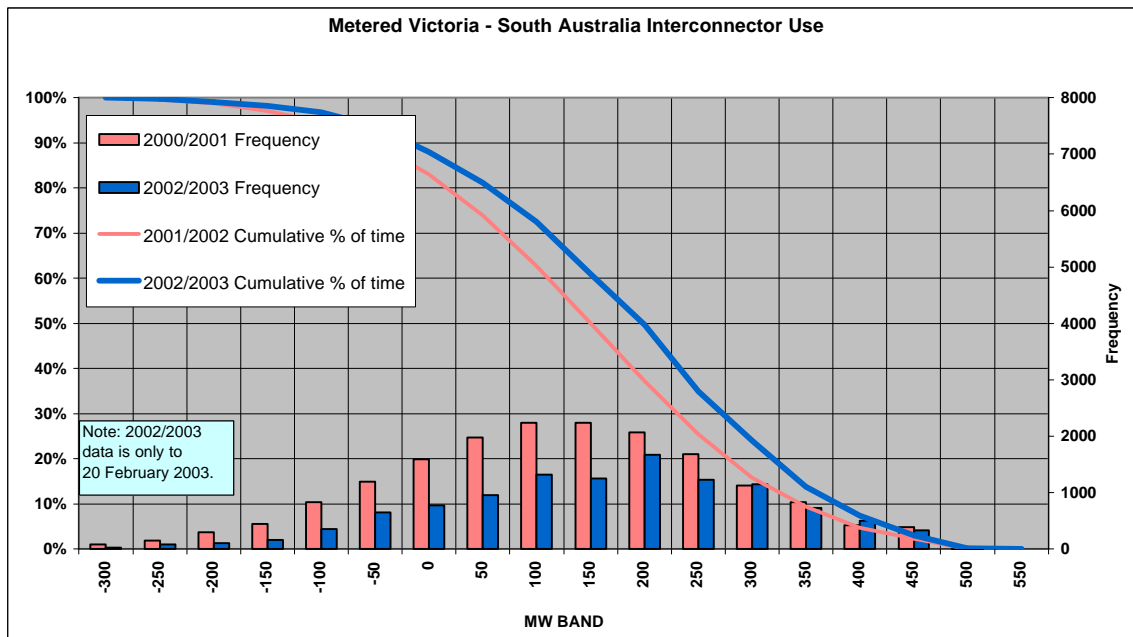


and validity of the calculation of these losses. The accurate calculation of losses is an important factor to be considered when determining the benefit provided by Murraylink.

- 5.31 ElectraNet notes MTP's submission regarding "Minutes Constrained – Inter-regional" and believes that it is inappropriate for MTP to claim the full market benefit associated with supporting (non-MTP) upstream and downstream transmission networks on the one hand but not accept any penalties associated with the adverse performance of these networks on the other hand.
- 5.32 It is worth noting that MTP had the option of requesting market network service provider access for Murraylink as part of its application to connect (and thereby could have obtained some form of guarantee of supporting network performance) but chose not to make such a request.

### ***Regulatory asset value of Murraylink***

- 5.33 The approach adopted by MTP in assessing the regulatory asset value ('RAV') for Murraylink appears to be to:
- (a) assume that all of the potential services (and the quantity of the services) that Murraylink can provide are justified in the market; and,
  - (b) include the value of these services in the determination of the RAV.
- 5.34 ElectraNet does not believe that this approach is consistent with the intent of the NEC or the regulatory test. Rather, Murraylink should only receive payment for those services that are required by the market and not those which can be provided to the market (whether needed or not) as a by-product of the expensive technology used.
- 5.35 Murraylink connects between the SA and Victorian region and essentially provides SA customers with increased access to Victorian generation. A fundamental question here is what is the optimum capability for an additional SA-Victoria interconnection and when should this capacity be provided to the market to maximise the benefit. An indication of the RAV of such an investment can be derived from the earnings MTP is currently deriving from Murraylink and the settlements residue auction proceeds obtained from the SA-Victoria interconnection.
- 5.36 An examination of constraints on the SA-Victoria interconnection would provide an indication of the additional capacity that could be economically justified for an investment in additional SA-Victoria capacity.
- 5.37 The following graph shows historical usage of the regulated SA-Victoria interconnector over the 2001/02 and 2002/03 (up to 20 Feb 03) financial years. Despite a relatively hot summer in 2002/03 that included significant periods of prolonged hot weather (and the foreshortened time scale which excludes the milder autumn period) the graph shows that the interconnector was operating at over 80% of its capability for only about 7.5% of the time.



5.38 ElectraNet has analysed interconnector constraint information for the 1999/2000, 2000/01, and 2002/03 financial years. This information shows that the interconnector is only binding (or constrained) for 3½ – 4% of the time in terms of energy when compared to a nominal capacity of 500 MW being available for the full 8760 hours of the year.

5.39 Additionally, ElectraNet has installed more accurate lightning detection equipment in February 2001. Improved operating procedures were introduced as a result of this equipment which enabled a 3 fold reduction in the lightning exclusion zone that was previously used to constrain the interconnector. Although only limited statistical information is available regarding the impacts of the revised exclusion zone, indications are that the number of lightning related constraints have reduced to something less than 30% of the time experienced previously. Over the past two years the interconnector has only been constrained for about 30 hours per annum, compared to something like 130 hours in the year prior to the new equipment being installed.

5.40 ElectraNet considers that a regulated Murraylink represents an adjunct to the existing SA-Victoria interconnector and that the market benefit and justification associated with such an adjunct should consider the utilisation and performance of the existing interconnection.

*Alternative developments*

5.41 ElectraNet considers that a range of alternative developments that provide similar market benefits to Murraylink should be selected rather than technical equivalents as suggested by MTP.

5.42 A notable omission from the range of alternative developments is the SNI project which is well advanced and has already been shown to pass the regulatory test by the NEMMCo and the IRPC.

5.43 ElectraNet considers that the alternatives put forward by MTP and their costs are in-appropriate. In attempting to justify technical equivalence MTP has included plant

and equipment (SVC's, phase shifting transformers, underground cable, etc) that is either:

- (a) not required or justifiable under the NEC; or
  - (b) does not represent the optimum means of providing the associated service.
- 5.44 For example, switched capacitor banks provide a much cheaper means providing reactive support and maintaining acceptable voltage levels as compared to SVC's. Automatic Generation Control (AGC) which is controlled via the NEMMCo dispatch system provides an adequate means of controlling power flows over an alternating current (AC) interconnector.
- 5.45 An AC interconnector will respond automatically to disturbances on the network and in doing so can improve system security and the operation of the power system. On the other hand a HVDC link such as Murraylink only has limited capability to respond (for example, due to voltage variations at its terminal stations) and can only respond manually to power flow variations.
- 5.46 Whilst an AC link automatically responds to changes on the power system without manual intervention, a DC link does not. In order to control power flows over a DC link operator intervention (in addition to the NEMMCo dispatch functions) is required. This will entail an extra cost, which should be debited against a regulated Murraylink.
- 5.47 The regulatory test that applies to normal prescribed transmission investments requires the project to maximise the net market benefit. However, as noted above the process being proposed by MTP involves fully offsetting any market benefit provided by Murraylink against the regulated cost of Murraylink, and thus producing zero net market benefit. On this basis there would appear to be little merit for converting Murraylink to a prescribed service. This approach also flies in the face of the concept of economically efficient and transparent development of the regulated transmission system by providing a ready means of by-passing the regulatory test and NEC consultation processes.

***Commercial discount rate***

- 5.48 ElectraNet notes that a commercial discount rate of 11% was used by the IRPC in relation to its consideration of SNI and SNOVIC 400. Whilst there has been some downward trend in interest rates since this work was undertaken, ElectraNet is of the view that:
- (a) interest rates have not reduced by 1.75% in this time; and
  - (b) the 9.25% proposed by MTP is lower than the rates that would be required by a commercial entity investing in unregulated electricity infrastructure.

***Prescribed service to be provided by Murraylink***

- 5.49 MTP claim that a number of prescribed services would be provided by Murraylink. As mentioned previously in this submission, ElectraNet considers that MTP should only be entitled to earn a regulated revenue on an augmentation that would effectively pass the regulatory test. This includes optimisation of the augmentation to reflect the

provision of appropriate capacity, utilising appropriate technology and implementing at the project at the appropriate time.

- 5.50 In the case of Murraylink the use of a costly HVDC underground transmission line with a capacity of 220 MW should be questioned.
- 5.51 MTP claim a benefit for deferring the augmentation of the transmission system that services the Riverland region of South Australia until 2012/13. This date is at odds with the information previously provided by ESIPC (the SA government's independent overseer of transmission planning) which suggests a date of 2007/08.
- 5.52 ESIPC has reviewed the timing of this project in the light of revised load forecasts for the region. As a result, ESIPC has indicated a minor shift in the required timing by up to 12 months. On the basis of the work undertaken by ESIPC, the magnitude of the benefit claimed by MTP for the deferral of augmentation in the Riverland would appear to be excessive.
- 5.53 In any event, any proposed augmentation of the network servicing the Riverland region would be required to undertake and satisfy the regulatory test prior to its implementation. It is also inappropriate to claim the full benefit of deferring this transmission network augmentation within the revised time frame of 2007/08 -08/09 as alternative solutions which satisfy the regulatory test may be available during this period.
- 5.54 Murraylink does not respond automatically to a network contingency. Rather, manual intervention and manual dispatch is required in order to achieve a desired power output. Therefore, if Murraylink is to be used to meet the service standards for the Riverland region of South Australia in the same manner as an alternating current solution would Murraylink would need to be pre-dispatched at a level that would take into account the worst conceivable single contingency event that could occur at that time. This could conceivably require some sub-optimal dispatch of the NEM to achieve this outcome. The costs of such sub-optimal dispatch should be debited against the benefit that Murraylink would otherwise provide.

***Gross market benefits provided by Murraylink***

- 5.55 ElectraNet is concerned that there is a potential to double count the reliability benefits and the benefit associated with deferred market entry when calculating the gross market benefit attributable to Murraylink.
- 5.56 Murraylink argues that:
- (a) it should be able to claim a benefit for being available and in service and thus avoiding the need for new market entry generation plant (i.e. Murraylink would be providing a reliability benefit); and
  - (b) in the absence of Murraylink, new market generation plant would establish itself in response to market forces, and the generators would provide the reliability benefits.
- 5.57 It seems inconsistent for Murraylink to claim a benefit for deferring the entry of new generation plant and then claim a further benefit for the improved reliability that that additional generating plant would otherwise have provided if Murraylink had not

deferred its entry into the market. It would seem that either one or the other benefit is appropriate, but not both.

- 5.58 It may be appropriate for Murraylink to claim the difference in USE that may occur if Murraylink was in service as opposed to the deferred generation being in service. However, given the claimed availability of Murraylink is 97%, which is not dissimilar to modern generating plant, this difference may not amount to anything significant.

#### *Selection of alternative projects*

- 5.59 As stated previously, ElectraNet does not agree with the concept of selecting alternative projects based on a concept of "technical equivalence". The market benefits section of the regulatory test requires an augmentation to maximise the net market benefit under most (but not all) scenarios examined before it can be declared a prescribed service.
- 5.60 On this basis the net market benefit attributable to all alternative projects should be considered as a fundamental requirement. It is quite conceivable that various technically equivalent projects produce markedly different net market benefits. Alternative projects should be selected on the basis of the market benefit they provide under this application of the regulatory test.
- 5.61 The process being proposed by MTP contradicts the normal regulatory test procedure in that it fundamentally assumes that Murraylink is the optimal development and all other alternatives must be made technically equivalent to Murraylink. No justification is provided for selecting Murraylink as the optimum development in terms of capacity, location, technology, timing, etc. The normal procedure requires the optimal solution to be determined by applying the regulatory test to a number of alternative possible developments.
- 5.62 The alternative projects selected by MTP are intended to be technically similar to Murraylink. However, ElectraNet is concerned that the alternatives chosen are "gold plated" and include plant and equipment that is not needed to provide prescribed services, excessive use of underground cables, excessive spares allowance and ignore the requirement to optimise these designs in accord with the regulatory test.
- 5.63 Schemes 1, 3, and 4 include expensive phase shifting transformers and SVC's which are not required to enable these options to meet the requirements of the NEC. ElectraNet is also concerned that the residual estimated costs appear to be on the high side and include excessive allowances for contingencies.
- 5.64 ElectraNet considers that the range of options considered should include the SNI project which has already passed the regulatory test and is rapidly approaching committed status.
- 5.65 ElectraNet does not consider that MTP has undertaken sufficient market modelling of alternative developments or market development scenarios in assessing the RAV for Murraylink. In addition we consider that MTP has not undertaken sufficient sensitivity analysis, particularly with regard to generator bid behaviour and commercial levels of WACC.

***Initial regulatory asset value***

- 5.66 As mentioned previously, ElectraNet believes that it is inappropriate to assume that Murraylink represents the optimal market solution (in terms of capacity, technology, etc) at the outset of the current process without rigorous justification. Such justification does not appear in the MTP submission.
- 5.67 A high level cost/benefit comparison of Murraylink against other SA interconnection options is tabulated below. This table shows that the cost per MW of additional capacity for Murraylink is approximately 3 times the least cost alternative option, although it is recognised (via the SNI regulatory test process) that this least cost augmentation between SA and Victoria would not at present pass the regulatory test.

<b>Description</b>	<b>Capacity</b>	<b>Cost</b>	<b>Cost/MW</b>	<b>Note</b>
SA-Vic I/C Upgrade	150 MW	\$50 M	\$0.34M/MW	1
SNI	250 MW	\$110 M	\$0.44M/MW	2
Murraylink	220 MW	\$215+ M	\$0.98+M/MW	3

**Note 1:** This project involves an upgrade of the existing SA-Victoria interconnection and like Murraylink provides additional capacity between the Victorian region and the South Australian region of the NEM. This project has not been actively progressed in recent times due to the falling utilisation of the existing SA-Vic interconnection and the significant reductions in inter-regional auction proceeds associated with this link. These two factors strongly indicate that additional interconnection capacity between South Australia and Victoria is not justifiable at present both in terms of timing and economics. The cost excludes the cost of the Riverland augmentation.

**Note 2:** This project provides a connection between the NSW and South Australian regions of the NEM and was deemed to pass the regulatory test by NEMMCo and the IRPC in December 2001. The regulatory test undertaken demonstrated that SNI in combination with SNOVIC 400 maximised the net market benefit in 2006/07. The cost excludes the cost of the Riverland augmentation.

**Note 3:** Like the existing SA-Victoria Interconnection Murraylink connects between the SA and Victorian regions of the NEM. Refer to reduction for O&M here to bring it down to \$177M (section 4.9 of MTP Submission). The cost of this project is the regulatory cost of Murraylink as determined by MTP. We understand that this regulatory cost includes the offset benefit of deferring the Riverland augmentation so the relative price of this project is understated when compared to the other two interconnection options by approximately \$25M.

***Capital, financing, and taxation***

- 5.68 MTP makes a number of claims and comments in its submission regarding capital, financing, and taxation. We note that a number of recent decisions made by the ACCC in relation to the regulated revenues applying to Network Service Providers in the NEM would be relevant in this regard and should obviously be applied in the same manner to MTP.
- 5.69 ElectraNet notes the MTP claim for debt margins of 150 basis points for an A rated company and compares this to the 110 basis points the ACCC applied to SPI PowerNet (also an A rated company) in its December 2002 decision.

- 5.70 In the light of recent revenue cap decisions made by the ACCC the post tax nominal WACC of 9.00% sort by MTP is markedly higher than the 8.23% and 8.3% applied to SPI PowerNet and ElectraNet respectively.
- 5.71 ElectraNet notes that recent ACCC revenue cap decisions have been based on a nominal 5 year period, with an additional ½ year period added to adjust the regulatory period to fit with the Australian financial year. ElectraNet sees little reason for adopting a different period for Murraylink.

#### ***Performance incentive scheme***

- 5.72 ElectraNet does not consider that MTP should obtain the benefit of lower service standards as a result of the particular type of plant and equipment they have chosen to adopt. Rather, the service standards for Murraylink should be those service standards that would apply to the optimal plant technology and configuration required to service the market. These service standards should only apply from the time the market would have required Murraylink to be in service.
- 5.73 Noting the above comments ElectraNet is generally supportive of the comments made by the ACCC's consultant PB Power with respect to MTP's proposed service standards.
- 5.74 ElectraNet supports the concept of providing more than one service standard measure for Murraylink on the basis that a single measure would not provide any incentive once the lower limit of that measure was exceeded. ElectraNet agrees with the multiple service measures suggested by PB Power and suggests that an additional service standard (being "time taken to return to service") could be considered.
- 5.75 Given the changing nature of technology and the NEM, and the lack of statistical information relating to the Murraylink, ElectraNet does not support the use of a 10 year review period for Murraylink's service standards. A period consistent with that applying to other TNSPs should apply.

#### ***Pass through***

- 5.76 ElectraNet is supportive of the concept of the ACCC allowing the cost of unforeseen and unpredictable events that impact on the provision of prescribed services being recovered by means of a pass-through linked to the regulated charges. However, we ask that the ACCC be cognizant of its recent decisions in this regards and ensures that the pass through provisions are applied equally to all regulated transmission entities.

#### ***Comments on MTP modelling***

- 5.77 ElectraNet has only been able to comment on limited aspects of the modelling undertaken by MTP in view of the fact that full modelling data has not been disclosed by MTP and the time constraints which applied to the preparation of this submission.
- 5.78 The base case load flow data provided by TEA to PTI identified thermal overloads and voltage constraints with Murraylink out of service. This suggests that either the existing transmission system does not comply with the technical standards of the NEC or the base case load flow data is incorrect. The former is considered to be unlikely. These aspects should be checked with the relevant Network Service Providers before any conclusions regarding the capability of Murraylink are made.

- 5.79 ElectraNet notes that the base case load flow study was obtained from the IOWG and was modified by MTP to remove the SNI components from service. SNI comprised numerous components and upgrades located throughout the NEM transmission system and a full data check would be needed to be undertaken in order to make sure that the MTP load flow model is a valid representation of the network with SNI removed.
- 5.80 ElectraNet is unsure of the validity of the Energy Benefit calculation described in section 2.2.4 of the TEUS Market Benefits Report. MTP state that the energy benefit comprises:
- (a) Energy charges caused by changes in the NEM dispatch order due to increased interface capability between the regions;
  - (b) Fuel cost caused by different market entry schedules,
  - (c) Voluntary load reductions, and
  - (d) USE (Unserved Energy).
- 5.81 ElectraNet believes that there is a relationship between energy charges and fuel savings particularly when SRMC and LRMC pricing regimes are used (as both pricing regimes would include fuel cost in the basic bid price of a generator). Presumably the model would then dispatch generation in accordance with the bid prices and this dispatch pattern would determine the energy price (which would inherently include any fuel cost savings that would result due to increased interface capability between regions).
- 5.82 Additionally, the impact of any alteration in network losses as a result of altered generation dispatch patterns should be appropriately accounted for when determining the net energy benefits.
- 5.83 In a real market situation market customers are paid for any voluntary load reduction in accordance with the price they bid for their load. It is presumed that the MTP model attempts to simulate this situation. This being the case, there would appear to be no net market benefit attributable to voluntary load reduction as Murraylink is simply claiming the value of this load in lieu of the market customer who would otherwise obtain this benefit. This would simply appear to be a wealth transfer that would not add to the net market benefit attributable to Murraylink.
- 5.84 ElectraNet has commented earlier in this submission regarding the relationship that may exist between USE and the reliability/deferred market entry benefits being claimed by MTP. ElectraNet notes that the MARS model used thermal limits for those inter-regional transmission systems that were not included in the SNI/SNOVIC IRPC assessment (refer to 3.1.5.2 of the TEUS Report). ElectraNet questions the validity of these assumptions given that the regions concerned are located at the extremities of the power system where voltage levels can be a primary consideration.



## 6. SAHA REVIEW MTP'S REGULATORY TEST METHODOLOGY

- 6.1 ElectraNet is generally in agreement with many of the comments made by SAHA International in its review of MTP's application of the regulatory test.
- 6.2 It is unfortunate however that SAHA International was unable to undertake a full independent assessment of the regulatory benefits and costs of Murraylink (as was previously the case when the IRPC undertook the assessment of regulated interconnections). The following comments are provided on the SAHA Report.
- 6.3 SAHA appear to only have had time to review the MTP application and comment on the validity of the approach being proposed by MTP. The report does not address the nature of the alternative augmentations proposed by MTP, the failings of these augmentations, and any obvious omissions from these.
- 6.4 It is disappointing that SAHA did not acknowledge the lack of inclusion of SNI in the alternative projects, given that they have included the regulatory test requirement to consider projects that are well advanced in any analysis. SNI is clearly a well advanced project under the definition provided in the regulatory test.
- 6.5 SAHA have provided comments on the alternative developments proposed by MTP which ElectraNet considers are valid (use of cables, contingency allowances, etc). However, SAHA has not commented on the purely technical basis adopted by MTP for selecting the alternative developments and the validity of this approach to the regulatory test. Further, SAHA has not addressed:
  - (a) the market benefit associated with any of the alternatives proposed by MTP or other potential alternative options; and
  - (b) the significance of this when undertaking the regulatory test (which requires the augmentation that delivers the maximum net market benefit to be selected).
- 6.6 SAHA has rightly commented on the lack of scenario analysis undertaken by MTP and the potential lack of robustness in the MTP approach and analysis.
- 6.7 SAHA appear to consider that Murraylink provides a direct connection between the SA and NSW regions (refer to section 3.4.5 of the SAHA report). This is incorrect. Murraylink only forms a direct connection between the South Australian and Victorian regions of the NEM. It provides an indirect link between SA and NSW via the existing NSW – Snowy – Victoria interconnected system, as does the existing SA-Victoria interconnection.
- 6.8 ElectraNet agrees with the comments provided by SAHA regarding:
  - (a) the propensity for error and the potential lack of robustness in the MTP market benefit assessment; and
  - (b) the sensitivity any such errors may have on the ACCC's assessment of the Murraylink application.

- 6.9 ElectraNet agrees that more work is required in order to properly assess the market benefits associated with Murraylink (and other alternative proposals) and would suggest that this would be best done by an independent consultant.
- 6.10 SAHA have provided many relevant comments regarding the modelling parameters and assumptions made by MTP in their submission. ElectraNet agrees with SAHA that these aspects should be adequately addressed prior to the ACCC making any determination concerning MTP conversion application.
- 6.11 As previously discussed in this submission, ElectraNet does not agree that the concept of "discarding an alternative augmentation on technical grounds" is appropriate for a market benefits regulatory test. Such an approach may be correct, to the extent that those technical features are confirmed necessary, when undertaking a reliability based regulatory test. However, this is not the case in relation to the MTC conversion application. SAHA appear to have discarded option 4 of the alternatives provided by MTP on these grounds, which we do not consider to be valid.