3. Apr. 2003

Mr Sebastian Roberts
A/g Manager
Regulatory Affairs – Electricity
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Melbourne Victoria 3001

By e-mail: electricity.group@accc.gov.au

Dear Sebastian,

MURRAYLINK TRANSMISSION COMPANY – APPLICATION FOR CONVERSION TO A PRESCRIBED SERVICE

ElectraNet notes the additional information provided by Murraylink Transmission Partnership in support of its application to convert the Murraylink market network service to a prescribed service and provides the following comments in addition to those previously provided on 18 March 2003.

Threshold Issues

1. The fundamental issue for the ACCC to consider is if it should use its discretion to permit the conversion of the Murraylink market network service to a prescribed service. In its consideration on this matter the ACCC needs to be cognizant of the statements made by the NECA Working Group on interregional 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."*

There are two key provisions in these statements, firstly, that the conversion option should not be used to shield the proponent from normal commercial risks, such as over estimating the future demand for the market network service, and secondly, if conversion is contemplated, the regulated revenue entitlement should be based on the need for the facility at the time of the application.

2. 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.

3. 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.

4. The regulatory test applied to the Murraylink conversion application must be modified in order to ensure that MTP is not treated more favourably than an applicant for the development of a regulated interconnector simply because Murraylink has already been constructed.

5. The level of review and testing applied to MTP should ensure that the net market benefit provided by the conversion of Murraylink would be at least 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. In this situation the comparable project should be SNI which was assessed to have passed the regulatory test in December 2001.

6. ElectraNet does not consider that the approach proposed by MTP will deliver any net benefit to the market. Rather, due to commercial risk transfer it is in fact possible that the conversion of Murraylink to a prescribed service will result in a net loss of benefit to the market, which is contrary to the underlying principles of the regulatory test.

7. Murraylink is presently in service and as such should already be providing the market benefits identified by MTP in its submission and providing a commercial rate of return to its owners for these services.

    7.1. No additional market benefits appear to have been identified by MTP for converting Murraylink to a prescribed service.

    7.2. On this basis there would appear to be little justification for MTP to apply to convert Murraylink unless they have over judged the requirement and the value of the services Murraylink presently provides to the market. If this is the case, then it is possible that MTP have overstated the gross market benefit they believe Murraylink can provide as a prescribed service.

8. Should Murraylink be converted to a prescribed service, the regulatory asset value assigned to Murraylink should not exceed the cost of SNI, suitably discounted to take into account the need to provide the same net market benefit as SNI, the lower availability of Murraylink, and the higher market costs and the lower contribution to system security associated with the operation of Murraylink (as it is a controlled link that does not respond automatically to market and power system events).

Comments on MTP Submission of 17 March 2003

1. The SNI project stillhas not been included in the Market Development Scenarios used by MTP. ElectraNet does not agree with this approach. SNI was deemed to pass the regulatory test in December 2001 and at the very least should be regarded as a highly probable market development scenario. It is worth noting that SNI passed the regulatory test with the Murraylink market network service included in the base case market development scenario.
2. We note that MTP are still using a 9.25% discount rate for its analysis. This is significantly less than the 11 % commercial discount rate applied to SNI and SNOVIC 400 by the IRPC when undertaking the regulatory test on those project. ElectraNet considers that the Murraylink evaluation should be based on the 11 % discount rate with sensitivity analysis undertaken around this value.
3. The MTP analysis has been undertaken in the absence of the SNI interconnector project. Given that Murraylink has a lower maximum capacity than SNI it is inconceivable that Murraylink would deliver greater benefits to the market than SNI, yet the gross market benefit claimed by MTP implies that this is the case. This is even more puzzling given the lower availability being claimed for Murraylink and its inability to access the same quantity of relatively cheap NSW generation.
4. The MTP analysis again assumes that Murraylink is the optimal development in terms of capacity and construction. ElectraNet considers that this assumption should be proven as part of the regulatory test process.
5. ElectraNet is surprised at the relative consistency of the gross market benefit sensitivity tests undertaken by MTP, given the wide range of market benefits that have been identified for other projects that have undertaken sensitivity analysis as part of the regulatory test assessment. For example, net market benefits ranging from $34 M to $135 M were identified for SNI depending on the market scenario under consideration.
6. ElectraNet notes the comments provided by BRW regarding the need for phase shifting transformers. ElectraNet is not supportive of those comments. The SNI project comprises an AC link without phase shifting transformers at Buronga or Robertstown.
    - 6.1. The capacity of SNI ranges between approximately 70 MW and 250 MW.
    - 6.2. Key factors in determining this capacity are load and generation disposition. It is the capacity of the transmission system at Buronga and Robertstown that determines this capacity and not necessarily the capacity of the Buronga-Robertstown transmission link.
    - 6.3. This situation is not dissimilar to Murraylink where prevailing load and generation conditions can limit the available capacity on the AC system at Redcliffs and Monash to values significantly less that the stated capacity of 220 MW. At times of high loads and /or unfavourable generation dispatch, the available capacity for Murraylink can be zero in some circumstances.
    - 6.4. The analysis undertaken by BRW to justify the inclusion of phase shifting transformers appears to ignore the significant impact that generator dispatch has on the capacity of parallel interconnectors.
    - 6.5. The analysis undertaken by BRW appears to be based on simple thermal evaluation of the power system with a limited number of generation and load

cases studied. Actual network capacity requirements will depend not only on the thermal capability of plant and equipment, but the relative disposition of load **and generation**, and the dynamic performance of the power system in response to network events.

6.6. The BRW analysis also ignores the incremental pre-contingent capacity that can be provided by two AC links operating in parallel. For example, with SNI in service it is possible to load the existing SA-Vic interconnection up to about 540 MW without violating system security. This is because of the altered system dynamics that results from two free flowing networks operating in parallel that permits an automatic re-distribution of flows when a contingency occurs. (This is not possible with a DC link such as Murraylink).

Should you require any clarification of the matters contained in this submission please do not hesitate to contact the undersigned by telephone on (08) 8404 7900, or by e-mail at stam.robbert@electranet.com.au .

Yours sincerely,

Robbert A Stam

Consultant

ElectraNet SA