



Hydro Tasmania
the renewable energy business

11th August 2008

Mr Chris Pattas
General Manager-Network Regulation South Branch
Australia Energy Regulator
GPO Box 520
Melbourne, VIC 3001

By email to aerinquiry@aer.gov.au

Transend Revenue Proposal

Dear Chris,

Hydro Tasmania welcomes the opportunity to comment on Transend's revenue proposal for the period 09/10 to 13/14 and the accompanying negotiated transmission service criteria.

Hydro Tasmania would like to focus our comments on Section 6 of the revenue proposal, which discusses the suggested increases in OPEX of 28% in 09/10 and 6.4% thereafter in real terms. This equates to an overall 64.7% increase over the regulatory period. Whilst we have read Transend's document, our concerns over this large increase remain.

Hydro Tasmania is concerned that the significant capital expenditure on refurbishment and upgrade work has not translated into an OPEX efficiency dividend. We recognise that Transend has done good work in the application of real-time transmission asset ratings and this leading edge work sets a benchmark for other TNSP in Australia. However, we are concerned about the projected increase in OPEX.

We urge the Regulator to ensure that sufficient incentive exists for Transend to manage OPEX increases by improvements in efficiency, rather than simply seeking to pass these through to transmission users. Real wage growth affects everyone, but we are not all able to pass these through, without making internal business adjustments to manage costs effectively.

Finally, there seems little consideration in Transend's economic analysis of an economic downturn scenario and the impact of this on the economically efficient level of transmission investment in specific locations. Some weighting should perhaps have been given to the risk of a negative economic outcome as a consequence of higher non-carbon driven energy pricing (eg driven by liquid gas price increases) together with the direct effects of carbon pricing. This could in turn lead to loss of major industrial load in Tasmania with consequential reduced overall economic activity in the State. Whilst the intention of the Federal Government is to protect trade-exposed energy-intensive industries, there is no guarantee that the load growth projected by Transend will eventuate in the 2009-2014 timeframe.

Hydro Tasmania is currently reviewing Transend Network's Proposed Negotiating Framework. At the time of writing, this review has not been completed and as such Hydro Tasmania reserves its position to raise comments in later stages of the AER's public consultation process.

In closing, Hydro Tasmania would like to thank the AER for this opportunity to comment on Transend's revenue proposal and express its willingness to engage further in future discussions leading up to the Regulator's Final Determination in April 2009.

If you require any additional information, please contact David Bowker on 62 305775 or via email at david.bowker@hydro.com.au.

Yours sincerely

A handwritten signature in blue ink that reads "D. Bowker". The signature is written in a cursive style and is underlined.

David Bowker
Manager Regulatory Affairs