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MARS/PRISM:

Dear Mr Roberts

Murraylink application for conversion to regulated service

I thank the Commission for affording the opportunity to make submissions on the proposed Murraylink conversion.

In my view, the proposed conversion of Murraylink to a regulated interconnector should be rejected outright.

Murraylink was developed as an unregulated interconnector, with the rights and privileges that come with that status. Murraylink has the right, as an unregulated interconnector, to bid in a relatively unrestricted manner, similar to a generator. This allows it to profit from trading energy across regions. Murraylink itself has always claimed that MNSPs are economically equivalent to generators and should be treated as such, with no bidding restrictions. Yet there is no scope for generators to 'convert' to a regulated service and receive a regulated income. It is widely accepted that generation investors take their chances in the competitive market. If market circumstances change or transmission constraints develop which prevent a generator from being dispatched or making a profit, that is considered bad luck for the investor. In a market system, the investor would keep operating the generator so long as it could cover its marginal costs. If this was not possible, the investor could sell the project to someone else at a lower price. That person would then run the generator, with the benefit of a lower asset value to finance, so the generator would not be a 'wasted' investment.

In fact, to my mind, one of the main drivers for the creation of the NEM was to avoid the massive over-building of generation capacity that took place in Victoria and, to lesser extent, in New South Wales, in the 1980's. It was thought that allowing the market to determine investment on the basis of private risks and rewards would lead to more efficient investment outcomes.

In light of all this, I see no reason for Murraylink to be treated differently from a generator investor in terms of access to a regulated income.

That being said, I realise that the Commission has approved Code changes that allow Murraylink to convert to a regulated interconnector. That is unfortunate, but given that this provision exists, its use should be restricted to very specific circumstances. The one justification for allowing an MNSP (but not a generator) to convert to a regulated asset is that the Code provisions for MNSPs are new and relatively untested. If these provisions change, or if the Commission imposed heavy-handed obligations on MNSPs through, say, access undertakings, then an ability to convert could possibly be justified.

However, in Murraylink's case there have been no onerous regulatory impositions or draconian Code changes. Murraylink's owners simply made a bad commercial decision. They did not expect that SNI would get approved after Murraylink become a 'committed' project – they took a calculated gamble to go ahead with the project even though SNI was still going through its approval processes. As everyone knows, a gamble can be won or lost. If it is lost – as it was in Murraylink's case – the ACCC should not come to the rescue with the promise of a regulated income underwritten by customer charges.

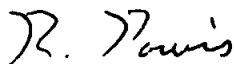
It could be true that if Murraylink does not convert to a regulated interconnector, it could be effectively duplicated by SNI. That might well be inefficient. But nothing is preventing the owners of Murraylink from making a commercial bargain with TransGrid to sell the Murraylink assets for a price that TransGrid could justify to the Commission as a part of the SNI project. This would be efficient and in everyone's – including customers' – interests. I suggest that this price might be well below what Murraylink's owners are now asking the Commission to approve.

In fact, it is well understood across the industry that the price Murraylink's owners have requested from the Commission is extortionate. A 176 kilometre line should simply not be valued at \$177 million – over one million dollars per kilometre. The mind boggles at the thought of what TUoS charges would be if all transmission lines in the NEM were valued in this way!

In conclusion, I respectfully suggest that the Commission should reject the Murraylink application to convert to a regulated interconnector. An efficient outcome is likely to follow from private bargaining, with customers being guaranteed that they will not have to pay more TUoS than what they would if Murraylink had never been built.

Please feel free to contact me to discuss this submission.

Yours faithfully



Richard Powis
Chief Executive Officer
In reply please quote file no.: RP:CG

