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27th October, 2011

Mr Warwick Anderson
General Manager – Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
AERInquiry@aer.gov.au

Dear Warwick,

RE: Powerlink Revenue Proposal 2012/13 - 2016/17

1 Overview

The Millmerran Power Partners (**MPP**) welcome the opportunity to make a late submission on Powerlink's 2012/13 - 2016/17 Revenue Proposal, in particular in relation to Powerlink's cost allocation.

The MPP own the Millmerran Power Station (**MPS**) which is an 850 MW power station near the town of Millmerran on the Darling Downs in southern Queensland. The MPS became fully operational in early 2003.

The MPP propose that the MPS to Bulli Creek transmission line assets (the **Assets**) are included in Powerlink's regulatory asset base:

- the Assets are an integral part of the Queensland transmission network;
- as such, the MPS does not have exclusive or priority access to the Assets;
- the Assets are configured so that multiple parties can benefit from use; and
- consumers and other generators benefit from use of the Assets without contributing to costs.

2 Background of the MPS

The MPS's connection and access to the Queensland transmission system is governed by a Connection and Access Agreement (**C&A Agreement**) between the MPP and Powerlink Queensland.

The MPS to Bulli Creek transmission line was built as a shallow connection for MPS. Upon connection, the Assets were non-regulated connection assets, meaning MPS had exclusive rights to use this section of the network.

Following commissioning of the network augmentation between the MPS and Middle Ridge (discussed below), this changed and the Assets were operated as part of the interconnected

transmission network. However, there was no change to the cost treatment of the Assets, which remained non-regulated in status and therefore other users are not subject to any cost impact from the Assets.

3 Subsequent developments

In 2002 Powerlink identified an emerging limitation in the electricity network supplying the Darling Downs area in south-west Queensland.

On 31 March 2003 Powerlink issued an Application Notice for a 'Proposed New Large Network Asset'. Powerlink recommended Solution A as the lowest cost option to resolve the emerging limitation. Solution A involved construction of a 330kV double circuit transmission line between the MPS and Middle Ridge, with associated substation works (Figures 1 and 2, Attachment). This was confirmed as the preferred option in the "Final Recommendation – Emerging Network Limitations Darling Downs Area" issued by Powerlink in July 2003.

The implementation of this solution changed the use of the Assets to part of the shared transmission network and therefore resulted in relinquishment by the MPP of exclusive access to the Assets which previously flowed from their being part of the MPS connection assets. However, as mentioned above, the regulatory status and therefore the cost treatment of the Assets remained unchanged.

4 Powerlink's cost allocation

Powerlink's operating and capital expenditure forecasts have been prepared and allocated to prescribed transmission services in accordance with its AER approved Cost Allocation Methodology.

Under the Powerlink costing model, each asset and activity is assigned to a category of transmission service. Where an activity is directly associated with an asset, the relevant category of transmission service for that asset is automatically applied to that activity. This ensures costs are correctly attributed to the relevant transmission service category (Sections 5 and 6, Appendix B – Powerlink Cost Allocation Methodology).

The MPP submit that since the implementation of Solution A, the Assets are no longer assigned to the appropriate category of transmission service. As such, Powerlink's operating and capital expenditure forecasts are inaccurate.

5 National electricity objective

Powerlink's cost allocation should promote the achievement of the national electricity objective under section 7 of the National Electricity Law:

> *"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:*
>
> *(a) price, quality, safety, reliability and security of supply of electricity; and*
>
> *(b) the reliability, safety and security of the national electricity system".*

The MPP submit that since the implementation of Solution A, the national electricity objective is no longer being met in relation to the allocation of costs for the Assets.

6 Assets should be included in regulatory asset base

The National Electricity Rules provide a mechanism for assets to be included in the regulatory asset base (Chapter 6A, Schedule 6A.2).

The MPP submit that implementation of Solution A has resulted in changes that make it appropriate to include the Assets in Powerlink's regulatory asset base. Including the Assets in Powerlink's regulatory asset base will meet national electricity objective criteria and ensure the Powerlink Cost Allocation Methodology accurately reflects the costs attributable to the Assets.

Reasons for inclusion of the Assets in the regulatory asset base are outlined below:

- following implementation of Solution A the Assets changed from a shallow to a deep connection (i.e. it has become part the shared network);
- the cost of the Assets were not included in the cost of Solution A; and
- other generators can obtain access to the Assets without being subject to any cost impact – Powerlink does not charge other generators for use of the Assets.

The current regulatory status of the Assets does not promote efficient investment in, and operation and use of electricity services. It is at odds with the current use of the Assets, in particular use by other generators and consumers

Long term investment signals are improved by requiring new entrant generators to contribute to funding of transmission works which they use. Minimising investment uncertainty across the transmission network is desirable.

The power produced by other generators as well as MPS is transmitted by means of the Assets. As the Assets become increasingly congested, the MPP are forced to compete with other generators for access. This creates access uncertainty for the MPP as well as other generators.

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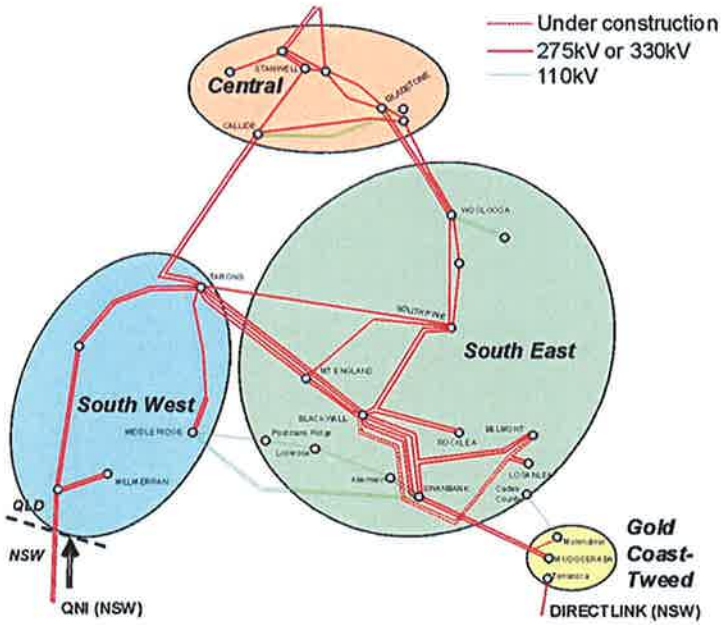
If you have any questions about our submission, please contact Robert Pane on (07) 3001 7124.

Yours sincerely,

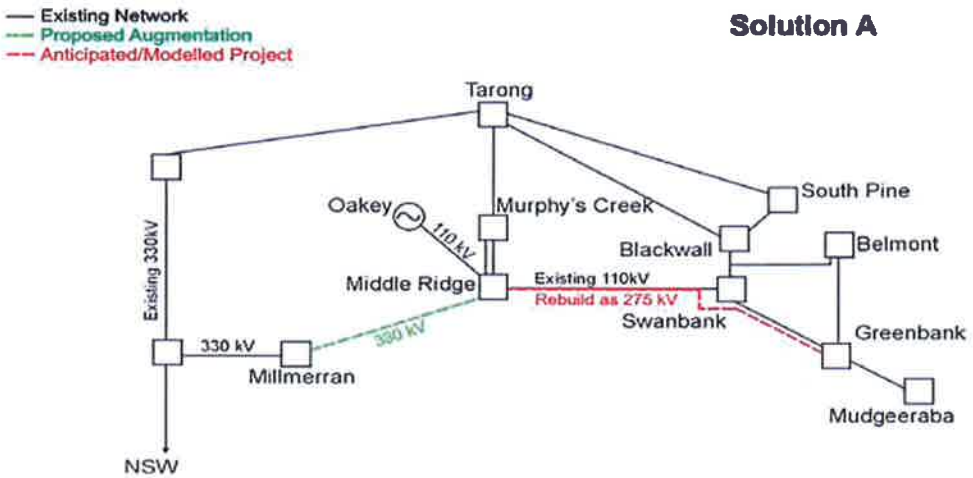
Sam Bristow
General Manager, Trading & Development
InterGen Australia Pty Ltd

Figure 1: Initial Supply system – Darling Downs Area



Source: Final Recommendation – Proposed New Large Network Asset – Darling Downs Area. Powerlink 8 July 2003

Figure 2: 'Solution A'



Source: Final Recommendation – Proposed New Large Network Asset – Darling Downs Area. Powerlink 8 July 2003, page 24.