

on behalf of **MURRAYLINK Transmission Partnership**

25 September 2003

Sebastian Roberts
General Manager, Regulatory Affairs – Electricity
Australian Competition & Consumer Commission
GPO Box 520J
Melbourne VIC 3001

Dear Mr Roberts

**Application for Conversion to a Prescribed Service and Maximum Allowable Revenue –
Approval for ElectraNet SA to Recalculate Cost Allocation**

On behalf of Murraylink Transmission Partnership, Murraylink Transmission Company (“MTC”) appreciates the opportunity to respond to ElectraNet SA’s letter of 4 September 2003 in which ElectraNet applies for the Commission’s approval under clause 6.4.6(b) of the National Electricity Code (“Code”) to recalculate its cost allocation to enable it to collect MTC’s revenue in the South Australian region from the date on which Murraylink provides a prescribed service until 30 June 2004.

MTC supports ElectraNet’s application to the Commission and encourages the Commission to grant its approval in this case.

The Code sets down roles for the Commission and TNSPs in the regulation of transmission pricing. This letter describes the relevant roles and responsibilities in the Code and argues that it is appropriate that the Commission determine, where necessary as in this case, that measures be taken to facilitate the timely recovery of MTC’s revenue.

Nature of the regulatory regime for electricity transmission

The regulatory regime for electricity transmission consists of two primary roles:

- the Commission has the role of determining the maximum allowable revenue for each transmission network service provider (“TNSP”); and
- TNSPs have the role of determining and applying transmission prices and charges, using the maximum allowable revenues determined by the Commission as a starting point.

These roles are strongly guided by the extensive objectives and principles set down in the Code.

ElectraNet's current role in this regime as the sole TNSP in the South Australian region

The Commission has determined ElectraNet's maximum allowable revenue for the period from January 2003 to June 2008.¹ Part C of the Code sets out ElectraNet's steps for determining transmission prices and charges in the South Australian region and, in particular, the steps by which ElectraNet:

- determines the annual aggregate revenue requirement it will recover each financial year—as the only provider of transmission services within the South Australian region, clause 6.3.3 of the Code determines that ElectraNet is the network service provider responsible for allocation of the aggregate annual revenue requirement for the transmission systems in this region;
- allocates the aggregate annual revenue requirement amongst all its assets utilised in the provision of transmission services which will then provide a figure estimating the cost of providing those transmission services;
- converts this cost allocation into transmission prices and charges; and
- publishes its transmission prices and charges.

When ElectraNet considers that a significant change in the use or configuration of the transmission network warrants a review of its cost allocation, clause 6.4.6(b) of the Code permits ElectraNet to seek from the Commission approval to recalculate its cost allocation.

ElectraNet's role as the Coordinating Network Service Provider for the South Australian region

Clause 6.3.2(a) of the Code permits transmission services within a region to be provided by more than one transmission network owner. The remainder of clause 6.3.2 of the Code sets out the manner in which the combined aggregate annual revenue requirements of multiple network owners would be allocated within a region. These provisions will be invoked in the Victorian and South Australian regions when the Commission determines Murraylink's conversion and a maximum allowable revenue for MTC.

The following points describe the manner in which these provisions of the Code will be applied in the South Australian region.

- ElectraNet and MTC must appoint a co-ordinating network service provider ("CNSP") who is responsible for the allocation of all relevant aggregate annual revenue requirements within the South Australian region (clause 6.3.2(b))—and ElectraNet and MTC are currently completing negotiations of an agreement that will formally appoint ElectraNet as the CNSP for the South Australian region;
- ElectraNet and MTC will each determine the aggregate annual revenue requirement for their own transmission system assets which are used to provide transmission system service within the South Australian region (clause 6.3.2(d));

¹ Australian Competition and Consumer Commission, *Decision: South Australian Transmission Network Revenue Caps 2003-2007/08*, 11 December 2002.

- as the CNSP, ElectraNet will use the total aggregate annual revenue requirement of all transmission network owners providing transmission services within the South Australian region to make the allocation in clause 6.4 (clause 6.3.2(e));
- as the CNSP, ElectraNet is responsible for the allocation under clause 6.4 in relation to network users', and transmission network service providers', connection points to transmission networks located within the South Australian region (clause 6.3.2(f));
- as the CNSP, ElectraNet must allocate costs under clause 6.4.3B(c) for all connection points with Transmission Customers connected to a transmission network located within the South Australian region using either the cost reflective network pricing method or the modified cost reflective network pricing method (clause 6.3.2(g)).

A Network Service Provider considers that significant change in the use or configuration of the transmission network warrants a review of the allocation

MTC agrees with ElectraNet that Murraylink's conversion will create a significant change in the use or configuration of the transmission network as contemplated in clause 6.4.6(b) of the Code.

Clause 6.4.6(b) of the Code states that:

Where a *Network Service Provider* considers that significant change in the use or configuration of the *transmission network* warrants a review of the allocation, the *Network Service Provider* may seek approval from the *Regulator* to recalculate the cost allocation to apply for the remainder of the *regulatory control period*.

Relevantly, the definition of "transmission network" in the Code is of a network within any participating jurisdiction. Murraylink is part of the transmission network within South Australia.

ElectraNet has indicated to the Commission that ElectraNet considers that:²

the inclusion of MTC's annual revenue requirement and associated cost allocation would constitute "a significant change" that requires transmission service prices to be recalculated during the pricing period.

To expand upon ElectraNet's point, the use of the transmission network in South Australia will significantly change in two ways.

Firstly, when Murraylink's network service becomes classified as a prescribed service, it will be dispatched by NEMMCO under the same procedures that NEMMCO applies to the operation of that part of the transmission network owned by ElectraNet. The operation of Murraylink will be managed by NEMMCO in a manner significantly different to the manner in which MTC manages Murraylink now, and Murraylink's power flow profile is likely to be different.

Secondly, as described in our application for conversion, Murraylink as a regulated interconnector will provide network support to the Riverland. The use of Murraylink to

² Letter of 4 September 2003 from Mr Rainer Korte of ElectraNet to Mr Sebastian Roberts of the Commission.

provide network support in the Riverland is a significant change in the use of the transmission network within South Australia.

Appropriateness of a recalculation of ElectraNet's cost allocation upon conversion

MTC submits that it is appropriate for the Commission to approve ElectraNet's request to recalculate of its cost allocation to allow ElectraNet to recover MTC's revenue during the current financial year.

The purpose of clause 6.4.6(b) is clearly to enable transmission prices and charges to vary during the course of a financial year in response to a significant change to the use or configuration of the transmission network. Clause 6.14.5 contains a similar provision that allows changes to distribution network service prices other than on an annual basis to be approved by the relevant jurisdictional regulator.

MTC lodged its application to the Commission for Murraylink's conversion and for the determination of its maximum allowable revenue in October 2002. The Commission published its Preliminary View on MTC's application in May 2003. MTC understands that ElectraNet advised its customers and other interested parties of the potential for new and increased transmission service prices resulting from Murraylink's conversion when it publishes its 2003-04 transmission service prices on or prior to 15 May 2003. This sequence of events has provided TNSPs, distribution network service providers and customers with an opportunity to anticipate Murraylink's conversion and a consequent change to transmission prices and charges in the South Australian region during the current financial year.

Given the Commission's role to determine MTC's maximum allowable revenue from when Murraylink's network service is classified as a prescribed service, it is appropriate that the Commission also determines, where necessary as in this case, that measures be taken to facilitate the recovery of this revenue from the same time. The Code will then guide ElectraNet as to how this cost reallocation will occur.

Similarly, MTC submits that there is no reason why the Commission should not approve ElectraNet's request for approval to recalculate its cost allocation and to withhold such approval would unnecessarily disadvantage MTC by delaying the recovery of its revenue determined by the Commission for the current financial, which would otherwise have to be recovered during the 2004-05 financial year along with the revenue determined by the Commission for that year.

As always, we would be pleased to provide further information in relation to any of these or other issues that the Commission believes have a bearing on its determination of ElectraNet's request for approval.

Yours sincerely



Stéphane Mailhot
Chief Executive Officer