

Ref. GHJ:m/L906

28 February 2003

**GORDON JARDINE**  
*Chief Executive*  
**Powerlink Queensland**  
*Tel: 07 3860 2607*  
*Fax: 07 3860 2122*

Mr Sebastian Roberts  
Acting General Manager  
Regulatory Affairs - Electricity  
ACCC  
PO Box 1199  
Dickson ACT 2602

Dear Sebastian

## **APPLICATION BY MURRAYLINK FOR REGULATED STATUS**

It is clear to us that the ACCC's decision—including particular elements within the overall decision—will set material precedents for the future determination of regulated revenue caps for transmission networks.

Powerlink believes that for regulatory consistency, all TNSPs must be able to rely upon the precedents set by the ACCC.

In that respect, the ACCC must approach this exercise in full awareness of all the precedents it is setting, and Powerlink signals its intention to rely upon such precedents as are in Powerlink's interests, in future regulated revenue determinations (and applications of the Regulatory test).

The purpose of this letter, therefore, is to disclose to the ACCC certain matters of precedence which Powerlink believes it could rely upon in the future. The list of matters is not represented to be exhaustive, and Powerlink reserves the right to rely upon other precedents which the ACCC sets in this exercise.

Apart from the obvious precedent of being able to convert a sub-economic non-regulated investment to regulated status, there are precedents which the ACCC will set in relation to its determination of the costs of the lowest cost network alternative.

### **A. Modern equivalent asset (MEA) value of network assets**

In determining the cost of the lowest cost network alternative, the ACCC will be setting a precedent for the MEA value for overhead transmission lines of a certain class, underground transmission line assets of a certain class, and substation assets of a certain class.



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Powerlink would seek to rely on the MEA values determined by the ACCC in at least two (2) ways:

1. **In determining the replacement value of its asset base.** In that regard, we would note that application of the values in the Murraylink submission would significantly enhance the replacement value of our existing regulated assets.
2. **In seeking capex efficiency 'dividend' for building new assets for a cost lower than the accepted efficient cost.** A regulatory principle provides for such a 'dividend', where the actual capital cost is lower than an efficient cost benchmark determined by an independent expert consultant. The ACCC and its consultants will, in this exercise, be determining such benchmarks for a series of capex investments (lines and substations).

In relation to this matter, we would note that with the benchmark set at the cost levels in the Murraylink submission, every capital project we have built since our last reset, and plan to build before our next reset, (both lines and substations) are candidates for a significant capex efficiency 'dividend'.

## **B. The concept of 'tactical undergrounding'**

In its assessment of the efficient cost of the lowest cost network alternative, the ACCC will be deciding the extent to which tactical undergrounding represents the lowest cost for a transmission line in a remote rural environment.

The Murraylink submission argues that tactical undergrounding is justified as part of the lowest cost solution because it avoids/minimises community objections.

We would presume that once the ACCC establishes the benchmark for the degree of tactical undergrounding that represents the lowest cost solution for a remote rural environment, one could extrapolate a higher degree of tactical undergrounding for less remote and more urbanised environments.

There are a number of outcomes for Powerlink from the precedent which the ACCC sets in relation to tactical undergrounding.

*Firstly*, we believe that the inclusion of tactical undergrounding will set a new benchmark for the MEA definition (and value) for transmission lines. This in turn must flow on to the determination of replacement asset value for transmission lines.



Secondly, we note that the capex program we submitted in our last revenue reset did not include any allowance for tactical undergrounding, and given the significant amount of new line projects facing us over the next few years, the inclusion of tactical undergrounding would be so material as to trigger a mid-term revision to our revenue caps.

Thirdly, we have a number of active line projects which have generated actual (rather than possible) community agitation for undergrounding. An ACCC decision in favour of tactical undergrounding would change our approach to those projects, which is presently based on overhead lines only.

In that regard, we would ask the ACCC, if it is going to sanction tactical undergrounding, to provide a set of criteria which it would accept as 'lowest cost' in terms of the conditions which would trigger tactical undergrounding and a set of criteria which it would accept for a range of environments from remote rural to urbanised.

### **C. Efficient level of spares**

The ACCC will be establishing a benchmark for the efficient level of spares for the assets in the lowest cost network alternative. Powerlink would want to apply that benchmark to its own asset base. In that regard, we would note that if the benchmark in the submission is confirmed, then Powerlink would need to significantly increase its level of spares, and such an increase was not contemplated in the capex forecasts in our last reset.

We look forward with considerable anticipation to the precedents which the ACCC will set.

Yours sincerely

A handwritten signature in black ink that reads "Gordon Jardine" with a small registered trademark symbol (®) at the end.

Gordon Jardine  
**CHIEF EXECUTIVE**