16 February 2007

Mr Mike Buckley
General Manager
Network Regulation North
Australian Energy Regulator
PO Box 1199
DICKSON ACT 2602

Dear Mike,

QAL's SUBMISSION IN RESPONSE TO THE AER's DRAFT DECISION ON POWERLINK's REVENUE CAP

Powerlink has read and considered the letter sent by Queensland Alumina Limited (QAL) to AER in relation to the AER's Draft Decision on Powerlink's Transmission Network Revenue Cap 2007/08 to 2011/12.

Powerlink takes all complaints about the reliability of its transmission network seriously. Powerlink strenuously rejects QAL's allegations that it has not met its reliability obligations to QAL, and that seven outages have occurred which "are <u>all directly attributable</u> to Powerlink". Powerlink also strenuously rejects QAL's allegations that it has unreasonably withheld information. Powerlink has had numerous discussions regarding the incidents with QAL management and operational staff.

Powerlink and QAL both own inter-acting parts of the system that supplies power to QAL's processing plant. These parts can affect reliability of supply, and plant resiliency and flexibility. Whilst Powerlink has made substantial investments in recent years to upgrade and replace Powerlink equipment, QAL is yet to implement improvements to their equipment.

Powerlink continues to work with QAL at a number of levels to discuss potential improvements. Powerlink's Chief Operating Officer met with the QAL Board on 13 February 2007 to progress discussion aimed at identifying mutually beneficial solutions. Powerlink intends these interactions to continue.

33 Harold Street ,Virginia
PO Box 1193, Virginia, Queensland 4014, Australia
Telephone: (07) 3860 2111 Facsimile: (07) 3860 2100
Website: www.powerlink.com.au

While these matters are obviously of critical importance to QAL and Powerlink, they are outside the purview of the AER. QAL does however make two key submissions in its letter to the AER which QAL considers relate to revenue cap determinations:

(a) that Powerlink's revenue cap should entitle QAL to a QAL-specific reliability regime; and

(b) that Powerlink's revenue cap should entitle QAL to information about events on Powerlink's network that impact QAL's supply.

Powerlink does not understand how QAL considers these to be matters within the scope of either the *Statement of principles for the regulation of electricity transmission revenues* (SRP) or the *Transmission Network Service Standards* (Service Standard Guidelines). The SRP, which in turn refers to the Service Standard Guidelines, is the statement upon which the AEMC and the AER agreed to base Powerlink's revenue cap decision. Neither the SRP nor the Service Standard Guidelines provide for the QAL-specific considerations that QAL seeks in its letter. As a result, Powerlink regards these two submissions to be irrelevant for the purposes of the AER's assessment of Powerlink's revenue cap.

QAL's key submissions seem to be directed at re-writing the SRP and Service Standard Guidelines in QAL's favour, and requesting the AER to apply these re-written standards to the current revenue cap determination process. This is contrary to principles of natural justice and the transparency with which the AER seeks to make its decisions.

QAL's attempt, though, to use the revenue-cap determination process to gain customer-specific rights, outside the scope of the SRP and Service Standard Guidelines, is inappropriate. The revenue-cap determination process is not an opportunity to re-negotiate the QAL connection agreement.

The connection agreement between QAL and Powerlink contains a variety of information regarding the technical arrangements for connection of QAL to Powerlink's network. This agreement substantially reflects the arrangements for connection which have been in place since before the electricity reforms commenced. The agreement therefore "grandfathers" some pre-existing conditions. Powerlink and QAL have an ongoing dialogue in relation to the obligations of both parties under the connection agreement and compliance with the conditions in the agreement by both parties, including, any above standard supply arrangements QAL may be seeking.

In relation to QAL's further submissions, which can be found largely under the heading "QAL's Specific Concerns with the AER's Draft Decision", Powerlink responds as follows:

<u>Costs of assets/services</u>

QAL's assertion that it can have assets constructed for a lower cost than Powerlink is not accurate. Powerlink is aware that QAL's comparisons have not been made on an "apples for apples" basis. It is important to ensure any comparison is made based on the same scope, timing and risk management for the works. Powerlink is willing, on a confidential basis (due to supplier confidentiality) to provide the AER access to specific relevant data which unequivocally demonstrates Powerlink's cost competitiveness.

Skilled resources

QAL's statement that "Powerlink's claims it is losing skilled engineers to mining companies" is a material misrepresentation of anything which Powerlink has asserted in relation to skilled resources. Powerlink has stated that it must, in order to attract and retain skilled resources (of all types – technical, project managers, construction managers, etc.) pay wages at the prevailing market rates in Queensland, where competition for resources comes from the mining (and construction) sectors.

Opex

QAL's approach to opex is not logical – taken to the extreme, it would suggest that operating costs should be the same as they were 50 years ago when the network was first built. It is clear that the network has increased in magnitude – there are more lines, more substations, more switchgear, and so on. Powerlink's opex submission recognises this, and also recognises that the opex does not need to increase at the same rate as expansion in assets.

Price impacts

Powerlink recognises that directly connected customers like QAL have a TUOS charge that is higher than 8% of their delivered cost of electricity. However, these customers also have no DUOS charges, which make up about 40% of the total delivered cost to the average customer.

In addition, it is not possible, due to, inter alia, the "grandfathered" provisions of the connection agreement, to reach an informed judgment on the overall pricing impact on QAL without QAL's full disclosure of both the priced and unpriced elements of that agreement.

Conclusion

Given the recent interactions with QAL, including at Board level, Powerlink is disappointed that QAL would seek to use this "forum" to pursue a very selective renegotiation of the connection agreement. As noted above, much of QAL's submission is not relevant to this revenue determination.

Nonetheless, Powerlink remains committed to working with QAL on delivering better outcomes for supply reliability and plant resiliency and flexibility.

Yours sincerely,

GH Jardine

Gordon H. Jardine
CHIEF EXECUTIVE

cc Johann Van Zyl, Managing Director, QAL
Peter Mouna, Principal Buyer – Raw Materials and Energy, QAL