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Submission via email to AERInquiry@aer.gov.au

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Dear Mr Anderson,

Murraylink Transmission Company's Murraylink revenue proposal for July 2013 to June 2023

Thank you for the opportunity to comment on the Murraylink Transmission Company's (MTC's) Murraylink revenue proposal for the period from July 2013 to June 2023. This letter comments generally on MTC's inclusion of a contingent project, rather than addressing the full content of the proposal.

Contingent projects are a sensible risk-management tool

MTC has proposed a contingent project in its revenue proposal as an option to meet a potential future need to strengthen interconnection between South Australia and Victoria/NSW.

TransGrid supports MTC's use of contingent projects as a useful mechanism to manage risk to both electricity consumers and TNSPs. Contingent projects ensure that where particular capital expenditure is not certain, TNSPs have a mechanism to trigger the capital works if necessary but electricity consumers do not bear the costs unless the work is triggered. Given the length of time between submission of a revenue proposal and conclusion of the regulatory control period to which it applies, contingent projects facilitate responsive and efficient investment decision-making where investment drivers change during this time.

As the AER is aware, the electricity demand forecast across the NEM has moderated sharply in recent years. In TransGrid's view, contingent projects provide a mechanism to respond appropriately to potential future changes in demand and other external factors, as the regulatory period progresses.

Successful application of the Regulatory Investment Test – Transmission (RIT-T) is an appropriate trigger for a contingent project

MTC has proposed four conditions be met as the trigger for their contingent project (page 37):

- *"The completion of a RIT-T consultation and cost-benefit analysis framework that maximises net economic benefit to the market must justify any one, or more than one element of the project to upgrade the capacity of the Murraylink corridor;*



- As required under the RIT-T assessment, available network and non-network solutions capable of meeting the identified limitation set out in the Project Assessment Draft Report are considered;
- Murraylink is successful in tendering to develop an element of the contingent project, under the transmission procurement arrangements that currently apply in Victoria or those that may in future apply to other jurisdictions or across the NEM;
- A financial commitment is made by the board of Energy Infrastructure Investments Pty Limited to undertake an element of the project. This arrangement would ensure that any expenditure committed at the time would reasonably reflect the capital expenditure criteria, and take into account the capital expenditure factors."

TransGrid endorses the MTC's proposal to use the successful application of the RIT-T as a trigger for their contingent project. The RIT-T is designed to select the option to meet a need which maximises net benefit to the market, and is subject to robust consultation with the public and industry stakeholders.

The AER's role, as defined in the National Electricity Rules, will be to assess whether this proposed trigger is appropriate. In the past, the AER have placed less emphasis on the successful application of the RIT-T as an appropriate trigger for a contingent project, which seems inconsistent with the regulatory framework and fails to appropriately recognise the effectiveness of the test. TransGrid is unclear on the reason for this, and recommends that the AER support the RIT-T as an appropriate trigger mechanism.

Please do not hesitate to contact me at philip.gall@transgrid.com.au or on (02) 9284 3434 to discuss any of the matters raised in this submission.

Yours sincerely,

Philip Gall
General Manager – Corporate and Regulatory Strategy