

Ms Karen Tilsed  
330kV Mid-West New Facilities Investment Test  
Electricity Access  
Economic Regulation Authority  
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18 August 2008

Dear Karen

**Western Power Proposed 330kV Mid-West Transmission Line  
New Facilities Investment Test – Draft Determination**

This submission from Alinta Sales Pty Ltd (**Alinta**) is in response to a request for submissions from the Economic Regulation Authority (**ERA**) on its paper dated 4 August 2008 and titled "*Draft Determination on the New Facilities Investment Test for a 330kV Transmission Line and Associated Works in the Mid-West Region of Western Australia*" (**Draft Determination**).

In general, Alinta supports the ERA making a determination that Western Power's proposed Mid-West 330kV transmission line and associated works passes the New Facilities Investment Test (**NFIT**). Nevertheless, Alinta has a number of concerns with the Draft Determination, which are discussed below.

**Efficiency Test**

The ERA indicates<sup>1</sup> that historical unit rates of construction and unit rates of similar works in other networks could be used to demonstrate the technical efficiency of the new facilities investment. The ERA used the unit cost benchmarks that formed part of the ERA's December 2007 Regulatory Test determination to assess Western Power's cost forecast for the proposed Mid-West network facilities. The ERA concluded that the forecast costs are consistent with benchmarks for unit costs for transmission lines in Australian conditions<sup>2</sup>.

Alinta suggests that the unit cost benchmarks are probably now out of date and as such Alinta tends to support Griffin Energy's view<sup>3</sup> that the estimated cost of the proposed facilities is likely to be a significant under-estimate of the actual cost.

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| <p>1. Alinta submits that, with the cost of the proposed Mid-West network facilities being significant, the ERA should engage an engineering consultant to review and report on Western Power's cost estimates to ensure the cost estimates are reasonable and that they represent an upper limit of the likely cost.</p> |
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<sup>1</sup> See the Draft Determination, paragraph 30.

<sup>2</sup> Op cit, paragraph 32.

<sup>3</sup> Op cit, paragraph 40.

The ERA has stated<sup>4</sup> that it considered only the forecast cost of \$300 million in assessing Western Power's application for pre-approval under the NFIT. If the actual costs to build the proposed Mid-West network facilities end up exceeding the forecast cost, it is not clear to Alinta if the ERA intends that the costs incurred in excess of the forecast are to be deemed to pass the NFIT.

Alinta considers that one indicator demonstrating that a facility has been constructed efficiently is for the facility to have been constructed within its approved budget, subject to agreed variations due to unforeseen events during the construction phase. Without such a disciplined approach a service provider will be encouraged to ensure it has a low budget so as to pass the NFIT but will then be motivated to build the facilities at as high a cost as possible given that the service provider knows any additional costs will be deemed to pass the NFIT.

2. Alinta submits that the ERA should specify as part of its determination the conditions on which costs incurred by Western Power in excess of the forecast cost will be deemed to pass the NFIT.

### Net Benefits Test

Alinta supports the ERA's position on the net benefits test as well as the comments from other parties on the net benefits test, as summarised in the Draft Determination. Alinta's position is a generic one, applying to the proposed Mid-West network facilities in particular, and other system reinforcements in general.

The proposed Mid-West network facilities represent an augmentation of the South West Interconnected Network (**SWIN**) that are in the nature of deep connection assets and will benefit all users of the SWIN no matter where a user is located. Such reinforcements provide the "potential for increased competition in the wholesale electricity market"<sup>5</sup>.

Despite overwhelming support that the proposed Mid-West network facilities provides net benefits to generators and loads on the SWIN, both Western Power and the ERA has avoided undertaking a detailed economic assessment of the net benefits arising from the proposed Mid-West network facilities.

3. Alinta submits that deep connection assets that from a technical point of view are required to augment the SWIN should be deemed to pass the net benefits test without the need for detailed economic analysis.

### Safety and Reliability Test

Alinta re-iterates its position from Alinta's initial submission on the proposed Mid-West network facilities. That is:

4. Alinta submits that when applying the NFIT in different parts of the SWIN in the future, the ERA should ensure there is no discrimination between users and so should apply the safety and reliability test in a manner that is consistent with the approach taken in respect to the proposed Mid-West network facilities.

The ERA is satisfied that the proposed Mid-West network facilities meet the safety and reliability test, because:

<sup>4</sup> Op cit, paragraph 42.

<sup>5</sup> Op cit, paragraph 51.

- (a) some augmentation of the existing transmission system is necessary to meet natural load growth<sup>6</sup>; and
- (b) seven substantial new block loads and nine substantial new generation connections gives rise to the need for the proposed 330kV transmission line rather than a lesser augmentation<sup>7</sup>.

The ERA notes that “no individual new load or generation connection gives rise to the requirement for the proposed transmission line. Rather it is natural load growth, in combination with a substantial number of new loads and generators”<sup>8</sup>.

The safety and reliability test should not be deemed to be passed on the basis of the number of users that have increased load or generation requirements. Whenever a section of the SWIN is augmented there will be existing users that are not increasing their load or generation requirements but which, because of the augmentation, will be required to pay an increased network tariff. It is irrelevant to them whether there is one or 21 users in a section of the SWIN that have triggered the augmentation.

5. Alinta submits that the number of users with increasing load or generation requirements that trigger an augmentation should not be used as a basis to determine whether an augmentation passes the various NFIT tests, including the safety and reliability test.
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## Conclusion

Alinta expects the ERA will apply the NFIT consistently for future augmentations in other areas of the SWIN, and in accordance with the way the NFIT has been applied in the Draft Determination. Most augmentations on the SWIN will then pass the NFIT, such that the capital cost of augmentations will be added to the network capital base. In Alinta's view this is a progressive step. It will reduce, or perhaps eliminate, the need for Western Power to impose capital contributions and so would be more consistent with the approach in other jurisdictions around the world.

6. Alinta submits that the ERA should expand on Western Power's capital contribution policy so as to provide clarity for both Western Power and for network users as to the practical application of the NFIT.
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Please contact David Randle on 08 6213 7252 to discuss this submission or to obtain clarification on any of the issues raised.

Yours faithfully

**David Randle**  
**Commercial Manager**

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<sup>6</sup> Op cit, paragraph 64.

<sup>7</sup> Op cit, paragraph 65.

<sup>8</sup> Op cit, paragraph 66.