

Your Ref:
Our Ref: DG/06/0895

Dr John Tamblyn
Chairman
Australian Energy Market Commission
Via email: panel@aemc.gov.au

Dear Dr Tamblyn

**RE: DRAFT RULE DETERMINATION:
(ECONOMIC REGULATION OF TRANSMISSION SERVICES) RULE 2006**

I refer to the above Draft Rule Determination and Second Draft Rule regarding the economic regulation of Transmission Network Service Providers (TNSPs) published on 26 July 2006.

I am pleased to note that the proposed Rule generally improves investment certainty for transmission entities by adoption of many components of the existing Statement of Regulatory Principles into the Rule and by specifying a process and parameters for calculating the cost of capital.

Queensland is experiencing a period of sustained economic growth, and associated high load growth, which is driving the need for record levels of investment in transmission network augmentations. In this high growth environment, it is essential that the Rules enable Powerlink Queensland (Powerlink) to raise sufficient revenue to provide for necessary capital expenditure on the timely upgrade and augmentation of the Queensland transmission network to continue to meet mandated reliability standards. In particular, the Department of Mines and Energy (DME) is concerned that the Rule allow for the timely recovery of costs associated with both emergent and contingent development, so that Powerlink can undertake necessary work without unwarranted regulatory uncertainty and delays.

For example, Powerlink is currently negotiating with the Australian Energy Regulator (AER) regarding inclusion of costs associated with a proposed salt water desalination plant on the Gold Coast as a contingent project in its 2007-2012 revenue reset application. The Queensland Government has committed to this plant which has activated this trigger already. It is Queensland's view that the final Rules must provide regulatory certainty that costs associated with such projects are recoverable by Powerlink in the event that projects proceed.

Powerlink must have sufficient regulatory certainty to undertake the operational expenditure required to continue to meet mandated reliability standards in the current Queensland environment of rapid load growth. Of particular concern are proposed Rule provisions for carry over of negative residuals for operational expenditure. This proposal represents far too strong a disincentive for operational expenditure, such as repairs and maintenance, particularly given rapid increases and uncertainty in input costs. This presents a real risk of under-investment for Queensland, where rapid demand growth exposes Powerlink to unforeseen cost increases.

Finally, Queensland recognises the significance of the guidance to assist the AER to determine whether TNSPs' capital and operational expenditure estimates are reasonable. Queensland considers that any assessment of the reasonableness of expenditure estimates must be underpinned by the notion of good electricity industry practice, as defined in the Rules. Setting this as the standard against which all criteria for expenditure estimates are assessed would reinforce the relevance of these standards and promote adoption of good electricity industry practice by all TNSPs.

Further comment on the proposed Rule is attached. I trust this information will be of assistance in further development of the Rule. Should you wish to discuss this matter, please contact Mr Denis Warburton, Director – Electricity and Gas Markets, on telephone (07) 3239 6908, or via denis.warburton@energy.qld.gov.au.

Yours sincerely

SCOTT FLAVELL
Director General
Department of Mines and Energy

Enc.