



Our Ref: C2004/506
Contact Officer: Warwick Anderson
Contact Phone: (02) 6243 1240

28 February 2005

Mr Dennis Stanley
Manager
Directlink Joint Venture
PO Box 5118
Port Macquarie NSW 2444

Dear Mr Stanley

Application for conversion of Directlink merchant interconnector

Thank you for the Directlink Joint Venture's (DJV) submission of 8 February 2005 and the additional report prepared by your consultant Burns and Roe Worley (BRW). I am writing to advise the DJV that the ACCC has received additional information relating to that submission which the ACCC believes should be brought to the attention of the DJV.

On 24 February 2005, the ACCC received a letter from Parsons Brinckerhoff Associates (PB). In that letter, PB stated that the BRW report misinterprets a report that PB has prepared for the review of TransGrid's maximum allowable revenue. In particular, PB asserted that:

- Its report was produced for the purpose of assessing the capital expenditure proposed for TransGrid's maximum allowable revenue
- PB's comments on deferring the expected augmentations in the Port Macquarie area related to a component of TransGrid's proposed capital expenditure over the regulatory period that is uncertain in cost and timing
- A coordinated voltage scheme involving Directlink is one of a number of uncertain options that may allow TransGrid to defer augmentations to the Port Macquarie area
- No detailed studies have been undertaken by the TransGrid or PB to determine the most likely scenario
- The practicality of a coordinated voltage scheme is uncertain and further modelling is required as to what role, if any, Directlink would have in such a scheme.

A copy of PB's letter is attached.

The ACCC notes that in its revised application for conversion of 22 September 2004, the DJV attached a report from BRW assessing the deferral benefits of Directlink. In that report, BRW detailed the network constraints identified by BRW's modelling and supported by the joint

planning investigations of TransGrid and Country Energy. Regarding the augmentations required for Port Macquarie, BRW stated:¹

BRW has noted in its modelling that there are substantial network limitations in the area adjacent to the NSW far north coast, that is, in the area of the NSW lower north coast, south of and including Coffs Harbour. TransGrid has confirmed that this constraint exists and is addressing the issue with the installation of 330kV transformation at Coffs Harbour prior to winter 2006. It is also expected that a second 132kV connection between Kempsey and Port Macquarie will be required by 2005/06 which will ultimately form part of a new 330kV connection between Armidale and Port Macquarie assumed to be in service by 2008/09. **It is BRW's opinion that Directlink would not be able to assist in any significant way to the constraints in the lower north coast and has therefore would not defer these reliability augmentations**, though it has anticipated they will progress and BRW has accounted for them in its modelling. [Emphasis added.]

Further, in BRW's report submitted to the ACCC with the DJV's submission of 8 February 2005, BRW stated:²

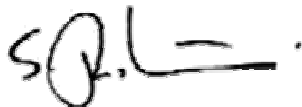
BRW's modelling has been based on the assumption that the 330 kV augmentation to Port Macquarie would be in commissioned by 2008/09 – this assumption was given by TransGrid in the consultations regarding the modelling assumptions. As this was an initial assumption, **BRW has not carried out detailed modelling to investigate the voltage conditions at Port Macquarie**. Currently capacitor banks at Port Macquarie and Taree support the voltage at Port Macquarie and the current development of the 330 kV supply to Coffs Harbour will also improve the voltage situation. The proposed 330 kV development to Port Macquarie will resolve this issue. **Limited studies by BRW have indicated that Directlink can provide a degree of support to improving the voltage conditions at Port Macquarie** prior to the 330 kV developments to Coffs Harbour and Port Macquarie. [Emphasis added.]

In light of BRW's comments and PB's letter, the ACCC considers that it does not possess sufficient material at this time to determine the extent to which Directlink can provide support to the lower north coast. To this end I request that you provide additional modelling of load flows and voltage conditions in the absence and presence of the augmentations to the lower north coast that are claimed to be deferred by Directlink in order to support your revised claim of 8 February 2005.

The ACCC also recently received a letter from Sunshine Electricity in relation to its Broadwater generator. I have attached a copy of Sunshine Electricity's letter.

Please contact me on (03) 9290 1867 or Warwick Anderson on (02) 6243 1240 if you wish to discuss the above matter further.

Yours sincerely



Sebastian Roberts
General Manager
Regulatory Affairs – Electricity

¹ BRW (2004) *Directlink: Selection and assessment of alternative projects to support conversion application to ACCC* p.37.

² BRW (2005) *BRW Draft Explanation to Review of Costs and Deferment Benefits* p. 3.