Energy Infrastructure Investments

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Mr Craig Oakeshott
Wholesale Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: craig.oakeshott@aer.gov.au

Dear Craig:

Directlink and Murraylink Interconnector submission on
Proposed amendments to the Service Target Performance Incentive Scheme

Directlink and Murraylink welcome the opportunity to comment on the AER's proposed changes to derive Version 5 of the Service Target Performance Incentive Scheme (**STPIS**). Directlink and Murraylink's comments are restricted to the Market Impact Component (**MIC**) of the STPIS.

The Directlink interconnector is a 59 km, 180 MW High Voltage Direct Current (**HVDC**) interconnect running between Mullumbimby and Terranora in NSW. The link is dispatched by the Australian Energy Market Operator (**AEMO**), in a similar manner to a generator, to control flows between the NSW and Queensland regions of the National Electricity Market (**NEM**) and thereby minimise the costs of generation in the NEM.

Murraylink is a 180 km, 220 MW HVDC transmission link between Red Cliffs in Victoria and Berri in South Australia. The link is dispatched by AEMO, in similar manner to a generator, to control flows between the NSW and South Australian regions of the NEM and thereby minimise the costs of generation in the NEM.

The nature of interconnectors is that any outage will impact the operations of two other TNSPs (one on each end); every outage is a "coordination outage". In contrast, as noted by AusNet Services and ElectraNet in the AER's consultation session, coordination outages constitute only a small proportion of the larger TNSPs' total outages. The responsibility to coordinate outages therefore falls more heavily on the interconnector assets than on the larger TNSPs.

Both Directlink and Murraylink are built towards the outer reaches of the neighbouring transmission networks, in relatively remote areas. Notably this requires maintenance and supervision personnel and equipment to be transported to site to conduct the work for which an outage was scheduled. These transportation and mobilisation costs can be significant.

In the event the corresponding neighbouring outage is cancelled on short notice due to unforeseen circumstances, Directlink or Murraylink could be liable for considerable staff and equipment mobilisation costs should it cancel its own outage in pursuit of the MIC benefit.

To ensure the effectiveness of the incentive regime, then, it will be necessary to consider the interaction between:

- The costs associated with cancelling an outage with limited notice, including the cascading impact on the business' revenues, notably through the operation of the Efficiency Benefit Sharing Scheme (**EBSS**);
- The potential benefit to be gained under the MIC; and
- The benefit to be gained by consumers of electricity through the operation of the incentive mechanism.

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ElectraNet agreed at the public forum that a TNSP could incur costs as a result of a short-notice cancellation of a coordinated outage. Quantifying this amount will depend on the amount of the work to be done and will vary with the nature of specialist labour and equipment required. In this case, the TNSP would need to make a commercial decision between whether it should proceed with the work (as an uncoordinated outage) and avoid any cancellation and remobilisation costs, or whether it should incur the cancellation and remobilisation costs with an aim to performing the work (as a coordinated outage) at some later date, and potentially earning the MIC incentive payment.

It is relevant to note that these cancellation and remobilisation costs would not be included in the TNSP's allowed opex costs. This has two impacts: first, it will result in an opex overspend, which will flow directly to reduced returns; and second, it will create an opex overspend for the purposes of the EBSS, which will serve to reduce the TNSP's revenues into the following regulatory period.

For Directlink and Murraylink, the value of the MIC component is small. Directlink's 2015/16 Annual Aggregate Revenue Requirement is only $13 million; the maximum MIC benefit then, is in the order of $260,000 per year. Similarly, Murraylink's 2015/16 revenue is in the order of $12.5 million, driving a maximum MIC benefit of only $250,000 per year.

A commercial decision between bearing the cash and EBSS impacts of cancelling an outage, against the potential of earning a small MIC reward is therefore likely to be made in favour of proceeding with the outage.

Should the maximum benefit available under the MIC component be halved as per the AER's proposal, the reward to be pursued becomes sufficiently small that Directlink and Murraylink may well question the value of attempting to coordinate outages at all.

Considering the small value of the MIC component for Directlink and Murraylink, the value of the incentive is simply insufficient to encourage the desired behaviour.

Directlink and Murraylink consider that it is important to consider the value to electricity consumers of the coordination of outages. Directlink and Murraylink raised this at the public forum, but the AER's explanatory statement does not attempt to calculate the value to electricity consumers. However, Directlink and Murraylink consider that the most cursory of calculations would indicate that the value to electricity consumers of having TNSP outages coordinated far exceeds the amount of the reward payable to the TNSPs under the MIC.

In summary, Directlink and Murraylink consider that it would be a failure of the incentive regulation regime should the incentive be insufficient to elicit the desired behaviour, which would be to the detriment of consumers of electricity.

We would be pleased to discuss this matter at your convenience. Please feel free to contact me on (02) 9275 0031, or by email at scott.young@apa.com.au.

Yours faithfully

Scott Young
Regulatory Manager