

4 June, 2004

Mr Sebastian Roberts  
General Manager  
Electricity Group  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

Dear Mr Roberts

### **DIRECTLINK APPLICATION FOR CONVERSION TO PRESCRIBED SERVICE**

This letter contains NEMMCO's submission to the ACCC on the application by Directlink Joint Venture (DJV) to have the Directlink market network service converted to a prescribed service.

In a similar manner to the recent conversion of Murraylink to a prescribed service, NEMMCO, as the operator of the National Electricity Market, does not have a position on this application for conversion. However, from NEMMCO's perspective, there are a number of implementation issues, and other issues that should be considered while progressing this conversion application. These are listed below.

#### **Regulatory Process**

NEMMCO is basing this submission on the assumption that the same regulatory process that applied to the conversion of Murraylink to a prescribed service will apply to the case of Directlink. Under this process:

- Once the current round of submissions have been considered, the ACCC will publish a preliminary view;
- If requested by any party, a pre-determination conference will be held;
- The ACCC will issue a final position paper;
- If the ACCC propose conversion to a prescribed service and on the basis that DJV agree to deregister the market network service (having considered the final position paper), the ACCC will authorise the change, effective from a date in the future (the *conversion date*). This *conversion date* will be set to meet NEMMCO's implementation requirements.
- DJV will send a NEC Clause 2.10.1 letter to NEMMCO requesting declassification as a market network service (effective from 24:00 on the day before the *conversion date*);
- The authorisation will become effective (as well as NEMMCO's system changes) at 00:00 on the *conversion date*.

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It is requested that any potential changes to this regulatory process be discussed with the appropriate NEMMCO officers in order to ensure a feasible implementation process.

## **Implementation**

If, through this process, the decision is taken to convert Directlink to a prescribed service, NEMMCO proposes to model this parallel regulated interconnector in the same manner as Murraylink is modelled in the NEM dispatch systems. Under this process, a separate inter-regional loss model would be developed for Directlink as a regulated interconnector, and this would be dispatched in parallel to, but separate from the existing Queensland to NSW Interconnector (QNI).

The following issues will need to be addressed during this conversion process:

1. The location of the regulated interconnector connection point and the logical metering point for Directlink will need to be determined; and
2. The interconnector loss model will need to be developed<sup>1</sup>.

These two issues will need to be addressed together and will be progressed by NEMMCO (and affected parties) at the appropriate time.

## **Settlement Residue Auction**

As was the case with Murraylink, should the ACCC recommend conversion, changes will be required to NEMMCO's settlements and Settlement Residue Auction (SRA) systems to manage Directlink as a regulated interconnector. The settlements systems will need to be changed before the *conversion date*, and the SRA systems will need to be changed before the first auction following the *conversion date*.

Under the Auction Rules for the SRA, the rules defining the allocation of residues cannot be altered within any twelve-month period. Therefore, in relation to the conversion of an interconnector from a market network service to a prescribed service, the additional settlement residue available between the two adjoining regions cannot be converted to additional units and auctioned until at least twelve months after the *conversion date*. In the interim, the residues accumulated due to flows on the newly regulated interconnector are automatically provided to the current holders of SRA units between the two regions in question.

## **Ancillary Services**

NEMMCO currently holds an ancillary service agreement with the consortium consisting of Hydro Quebec International Australia and Emmlink Pty Ltd for the provision of reactive power from Directlink. As a prescribed service, the contracted levels of reactive power should be available to NEMMCO outside of an ancillary service agreement.

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<sup>1</sup> The loss model for a regulated interconnector applies from regional reference node to regional reference node and, hence, differs from the loss model for the market network service.

The ancillary service agreement provides a payment stream to the consortium above until June 2005. NEMMCO assumes that, if the Directlink interconnector is to be converted to a prescribed service before the end date of the ancillary service agreement, this agreement will need to be terminated. NEMMCO requests the ACCC and DJV to consider this issue as part of the conversion process.

## **Definition of a Regulated Interconnector**

Directlink differs from Murraylink in one important aspect in that Directlink (with distribution connection points at Mullumbimby and Terranora) connects distribution networks in adjacent regions. The Code defines an "interconnector" as a transmission line or group of transmission lines that connects transmission regions in adjacent regions. On this basis it is arguable that if Directlink is converted to a prescribed service then it would not meet the definition of a regulated interconnector under the Code. This would create uncertainties in a number of areas such as inter-regional losses and the settlement residue auction. NEMMCO believes that any such uncertainty needs to be removed before any conversion of Directlink takes place.

As an option, consideration may be given to declaring the link from Lismore to Mudgeeraba to be transmission rather than distribution. However, it is important to recognise that this strategy requires physical metering arrangements to be changed at the same time so that energy losses are properly accounted and settled in the market. Such a metering project would require an estimated lead-time of between 12 and 18 months.

NEMMCO will work with DJV and the ACCC as required in relation to the possible conversion of Directlink to a prescribed service.

Should you have any queries regarding the above please contact Bill Truscott on (07) 3347 3022.

Yours sincerely

  
**Brian Spalding**  
**Chief Operating Officer**

cc. Bill Truscott  
Mark Miller