

Ref. GHJ-04LtrACCCDirectlinkApplic1706

17 June, 2004

Mr Sebastian Roberts
Director of Regulatory Affairs – Electricity
ACCC
GPO Box 520J
Melbourne Vic 3001

Dear Sebastian,

Directlink's Application for Conversion to Regulated Status

This letter outlines Powerlink's preliminary response to Directlink's application for conversion to regulated status.

The most immediate issue to address is Directlink's assertion that it could defer Powerlink's proposed Gold Coast augmentation for several years. This claim is made by Directlink in both its application for conversion, and in a recent submission to Powerlink's Application Notice: Proposed New Large Network Asset – Gold Coast and Tweed Areas.

As Powerlink's priority must be to address emerging network limitations in Queensland to ensure reliability of supply in the face of high load growth, we are focusing on preparing the Final Report for addressing forecast reliability of supply limitations to the Gold Coast/Tweed area (rather than separately preparing a detailed response to Directlink's conversion application).

The Final Report will demonstrate that Directlink's assertions regarding significant deferral of network augmentation to the Gold Coast are incorrect. The Final Report outlining the reasons for this will be available to the ACCC and any consultants it engages in relation to Directlink's application for conversion.

In particular, apart from the network support it can provide in 2005/06, which is part of Powerlink's recommended solution for reliability of supply to the Gold Coast/Tweed area, and for which Powerlink recently finalised a contract with Directlink, the proposals put forward by Directlink in support of its assertions about longer deferrals do not satisfy the reliability criteria which Powerlink is obliged to meet.



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By way of reference, Powerlink's transmission licence states:

- 6.2 Subject to clause 6.3, the transmission entity must plan and develop its transmission grid in accordance with good electricity industry practice such that ... (c) the power transfer available through the power system will be adequate to supply the forecast peak demand during the most critical single network element outage.*
- 6.3 The obligations imposed on the transmission entity by clause 6.2 will apply unless otherwise varied by a connection agreement made by the transmission entity with a person who receives or wishes to receive transmission services.*

The relevant parties who receive transmission services from Powerlink in the Gold Coast/Tweed area are ENERGEX and Country Energy. Both these parties have confirmed that the licence conditions in 6.2 above apply in this area.

Whilst the totality of the shortcomings of Directlink's proposals will be addressed in the Final Report, the following item is provided by way of illustration:

Directlink (see p43 of the Burns and Roe Worley report) asserts that since, in its opinion, Powerlink did not deliver an N-1 capability in the last summer (2003/04), then a capability of less than N-1 must be acceptable for many years into the future, and that consequently an augmentation can be deferred for years. This "logic" is a material contributor to Directlink's deferral claim.

The shortcoming of the "logic" is obvious. Even if Powerlink somehow failed to deliver the specified capability last summer (and Powerlink would dispute that assertion), this does not allow Powerlink to knowingly plan to deliver below the specified capability in future years. The reliability criteria in our transmission licence are explicit.

Not surprisingly, Powerlink is committed to delivering the requirement of its transmission licence, and this will be reflected in the analysis of feasible options in our Final Report, which will be available in the near future.

It is also apparent to us that the Directlink application for conversion contains a number of other matters, including the issues of undergrounding, transfer capabilities, and capital costs of alternatives, on which we are qualified to provide an alternative view.



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However, our resources are fully committed to the higher priority need of planning and developing the Queensland grid to meet the high load growths, and this prevents us from expanding our observations at this time. We would reserve our position to provide further input as the conversion process progresses.

We are assuming that because Directlink is wholly within NSW, 100% of the TUOS arising from its conversion to regulated status would be borne by NSW customers, and specifically Country Energy.

Should the ACCC have a view that any of the TUOS should be borne by Queensland customers, then we would ask to be advised promptly, as we would want to provide our expertise on behalf of Queensland customers to ensure any such TUOS charges were fully justified.

Powerlink is prepared to discuss any material herein, and our Final Report on the Gold Coast augmentation, with the ACCC and its consultants.

Yours sincerely,

A handwritten signature in cursive script that reads "G. Jardine".

Gordon H. Jardine
CHIEF EXECUTIVE