



FILE No:
DOC:
MARS/PRISM:

OFFICE OF THE CHIEF EXECUTIVE

14 September, 2007

Mr Mike Buckley  
General Manager  
Network Regulation North Branch  
Australian Energy Regulator  
PO Box 1199  
DICKSON ACT 2602

Dear Mike,

**SUBMISSION FOR COST PASS-THROUGH TO REVENUE CAP FOR 2007/08  
- GRID SUPPORT COSTS**

In accordance with the Australian Competition and Consumer Commission's Decision on the Queensland Transmission Network Revenue Cap 2002-2006/07 (November 2001), Powerlink seeks approval for pass-through in the 2007/08 maximum allowable revenue (MAR) of \$2.424 million in costs associated with the provision of grid support during the 2006/07 financial year.

Powerlink considers that the proposed pass-through amount is material, efficient and reasonable.

**Material**

On 18 May 2005, the Commission approved Powerlink's application for pass-through of \$22.65 million to address, in net terms, a forecast under-recovery of costs. For the 2006/07 financial year, this amount was based upon a grid support forecast of \$16.382 million (or an estimated variation of \$14.094 million relative to the AER's CPI-adjusted allowance of \$2.288 million).

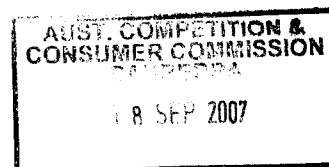
Powerlink's actual grid support costs for the 2006/07 financial year is \$18.762 million, which results in an actual variation of \$16.474 million. This means that Powerlink has under-recovered costs associated with the provision of grid support in the amount of \$2.424 million, grossed up by the AER agreed methodology for calculating the annual interest rate. This amount is considered material to Powerlink's operations.

**Efficient**

Powerlink remains the largest acquirer of network support services in the National Electricity Market (NEM), which has included all four possible forms – local generation, co-generation, demand side management and support from a market network service provider.<sup>1</sup> Consistent with the National Electricity Rules, Powerlink undertakes an open and transparent consultation process under the Regulatory Test to determine whether a non-network solution such as grid support is appropriate to address an identified limitation. These included Regulatory Tests conducted:

<sup>1</sup> Directlink converted to regulated status on 21 March 2006.

33 Harold Street, Virginia  
PO Box 1193, Virginia, Queensland 4014, Australia  
Telephone: (07) 3860 2111 Facsimile: (07) 3860 2100  
Website: www.powerlink.com.au



Letter to Mr Mike Buckley  
General Manager, Network Regulation North Branch, AER  
**Submission for Cost Pass-through to Revenue Cap for 2007/08 - Grid Support Costs**



14 September, 2007

- in 2001, to address transmission network constraints in the central Queensland to north Queensland areas;
- in 2004, jointly with Energex to address network limitations in the Gold Coast and Tweed Areas; and
- in 2005, relating to electricity supply to the north and far north Queensland.

In every case, grid support was demonstrated to be more cost-effective than immediate augmentation of the network.

Powerlink remains of the view that the use of grid support is efficient given that its procurement contracts were developed as a direct result of the Rules process for assessing investment options to address identified network needs. Powerlink has also structured its contracted utilisation of the northern Queensland generators to enable the lowest overall cost mix of generators to supply its network support needs. Furthermore, the costs associated with the provision of grid support services are borne only by Queensland customers.

#### **Reasonable**

Powerlink believes that it is reasonable to seek pass-through of the additional costs of grid support for a number of reasons relating to the inherent difficulty associated with forecasting grid support requirements - all of which are beyond Powerlink's control. In particular, these include:

- demand levels - which are largely dependent upon temperatures and rainfall patterns;
- hydro generation levels – which also depend on rainfall as well as spot market prices; and
- the level of market based dispatch of generation from the Collinsville and Townsville power stations vary with spot market prices and may depend on the power purchase agreements between Enertrade and the power station owners.

In summary, Powerlink believes that the variation of \$2.424 million meets the required cost pass-through criteria of being material, efficient and reasonable.

Should you have any queries relating to this matter, please contact Jennifer Harris.

Yours sincerely,

A handwritten signature in black ink, appearing to read "G. Jardine".

Gordon Jardine  
**CHIEF EXECUTIVE**

Enquiries: Jennifer Harris  
Telephone: (07) 3860-2667  
Email: [jharris@powerlink.qld.com.au](mailto:jharris@powerlink.qld.com.au)