

13 May 2010

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235



positive energy

Your Project ref: ERC 0100

Dear Ms Ross and Mr Feather

Australian Energy Market Commission (AEMC) Consultation Paper on Scale Efficient Network Extension

ENERGEX welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) consultation paper on scale efficient network extensions (SENE). It is ENEREX's understanding that the proposed rule changes are predominantly directed at and are more likely to impact transmission entities rather than distribution entities. Moreover, there are limited opportunities for large scale renewable generation projects within distribution networks. While ENEREX anticipates that the proposed rule changes would have a minimal impact on its operations, the following broad comments have been provided in the interests of ensuring that practical outcomes are not sacrificed in the pursuit of policy objectives.

ENERGEX recognises that the objective of the proposal has significant merit; that is to overcome Network Service Providers (NSPs) lack of commercial incentive to build network connections to an efficient scale in anticipation of future connection. However, the proposal raises some issues, the resolution of which, are likely to detract from the initial policy intent.

Assignment of Costs and Risks

The consultation paper and proposed rule changes appear to assign the risks associated with SENE arrangements to consumers. Consumers would pay for any revenue requirement shortfalls where fewer generators connect or connect later than was planned for. This transfer of risk is proposed on the basis that customers are considered to be the beneficiaries of more efficient network investment ultimately through reduced network charges. ENEREX questions the appropriateness of the proposed arrangements where all National Electricity Market consumers are the beneficiaries of increased renewable generation while only regional customers bear the costs and risks of over-scoping SENEs. ENEREX questions why consumers should notionally underwrite the development of a SENE while generators who also stand to gain, through reduced connection costs, are not required to bear any risk. Given that consumers have no ability to manage this risk, ENEREX considers that it is appropriate to have some inbuilt safeguards to prevent adverse outcomes for consumers.

Enquiries
Kevin Kehl
Telephone
(07) 3407 4439
Facsimile
(07) 3407 4499
Email
kevinkeh1
@energex.com.au

Corporate Office
150 Charlotte Street
Brisbane Qld 4000
GPO Box 1461
Brisbane Qld 4001
Telephone (07) 3407 4000
Facsimile (07) 3407 4609
www.energex.com.au

ENERGEX Limited
ABN 40 078 849 055

Issues regarding Estimating the Forecast Generation Profile and the Net Benefits of a SENE

ENERGEX notes that the consultation paper states that accurate forecasts of future generation entry are *imperative* to minimising the potentially large costs associated with under-utilised assets. The delivery of benefits to customers depends on the quality of information provided by NSPs, which in turn depends on the quality of information provided by generation proponents. NSPs do not typically have the internal expertise to validate a generator's forecast generation given that this will be based on anticipated market conditions and business specific cost information. As noted in the consultation paper, generators have better information about the timing, location and size of potential generation sites.

Decisions to construct a SENE may occur in the absence of robust and full information. ENERGEX understands that generators do not have to fund any of the network extension until such time as they are connected. SENE design decisions may be made well in advance of generators being ready to commit to connecting to the SENE. Under the draft rules (section 5.5A.11) generators can withdraw from a connection enquiry or an application to connect with respect of a proposed SENE. ENERGEX considers that the reliability of information may improve (and ultimately the potential efficiency benefits of a SENE arrangement) if generators face some risk under the arrangements and are required to meet some of the cost as a result of a generation project being abandoned or materially deferred.

The consultation paper suggests that there should be an obligation on NSPs to consider explicitly any benefits that may accrue to consumers as a result of the SENE. NSPs may be able to estimate network benefits but are not always best placed to estimate wholesale energy market benefits. In ENERGEX's view the Australian Energy Market Operator (AEMO) would be better placed to consider the market based benefits of a SENE. In the interests of consumers there must be clear and demonstrated benefits to mitigate over scoping of network extensions. Also there must be a very high probability of projects proceeding in the foreseeable future. Any assessment of net benefits should be on a case by case basis which includes a sensitivity analysis to indicate the likelihood of net benefits being derived from the SENE. ENERGEX questions the ability of any party to determine the net benefits of the SENE with any confidence, given this will depend on the viability of a generation project expected to come online at some future point.

Classification of SENE services and Cost Recovery Mechanism

ENERGEX notes that under the draft rules a SENE will be regarded as a negotiated distribution service and that any chargeable or refundable amounts to customers will be allocated by the Co-ordinating SENE NSP to transmission network users and transmission network connection points in accordance with its pricing methodology. ENERGEX is uncertain as to the basis for which NSPs could to recover revenue for negotiated services from standard control services customers. This appears somewhat counter-intuitive to the purpose of classifying services and the intent that the cost of providing a service is directly attributable to the customers to whom the service is provided. In ENERGEX's view, the AEMC should give further consideration to the cost recovery mechanism and the classification of services issues.

ENERGEX appreciates the policy intent behind this proposal however the proposed arrangements appear overly complex and their practical application may not deliver the efficiencies that are envisaged. If you wish to discuss this submission further, please contact Leigh Henderson by telephone on (07) 3223 1786 or by email at leighhenderson@energex.com.au.

Yours sincerely



Kevin Kehl
Executive General Manager – Strategy & Regulation