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Australian Energy Market Commission
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By email: submissions@aemc.gov.au

Dear Sir/Madam

Consultation Paper: National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010

TRUenergy welcomes the opportunity to make a submission in response to the Ministerial Council on Energy's (MCE) rule change proposal, entitled National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010.

While we raise some areas where the SENE proposal can be improved in this submission, the proposal is generally supported on the basis that it will allow additional economies of scale to be realised. While we have some discomfort with the increased element of central planning inherent in the SENE proposal and its attendant increase in customer risk exposure, with some increase in the SENE commitment trigger we believe the risks can be kept to acceptable levels.

Some key areas where the SENE proposal can be improved relate to:

- More than one Generator should be required to commit to the SENE and a high proportion of the capacity (at least 50% if not more) should be contracted prior to a SENE being committed. This change will ensure risks to customers are acceptably low;
- Greater certainty in costs and price associated with the SENE are required to support the generator investment environment:
 - More stringent cost control incentives are required on TNSP capital and operational expenditure. In this regard, we support the AER making its determination on the efficient operational & capital expenditure required to service the SENE over its life to be based on the "efficiency" principles enshrined in Section 6A.6.6 C & 6A.6.7 C of the National Electricity Rules (Rules);
 - Generators may prefer the option of a fixed WACC for the life of an asset or a regulated WACC adjusted at every five year price review. If the regulated WACC is selected, then this is the only cost component that should be varied in the proposed 5 year price review;
 - The rule should be clarified so that any cost variations allowed to be passed through to generators should be calculated based on the original generation forecast on which the SENE commitment decision was made.

We offer some thoughts on more detailed elements of the regime related to interruptible connections, potential incorporation of SENE's into the shared network and other aspects of the proposal below.

B: Key issues for consultation

The AEMC developed this issues paper seeking responses to questions in the following key areas.

- Efficient investment in electricity services
- Managing the risk of stranded assets
- Alternative mechanisms for managing risks
- Alternative configuration of SENEs
- Efficient use of electricity services; and
- Distinguishing SENEs from the shared network

We address each of these in turn. In addition, we include some comments on some specific clauses in the Rule proposal for the AEMC's consideration.

C: Efficient investment in electricity services

1 Will the proposed framework improve the efficiency in the construction of connection assets?

TRUenergy submits that SENEs will facilitate economies of scale which will reduce connection costs for renewable generators and potentially lead to more timely generation investment.

Ultimately customers benefit from this as generator cost savings flow through the competitive market delivering lower wholesale energy costs over time.

1.1 Under the existing rules, are in efficiencies likely to arise as a result of the significant new investment in renewable generation?

TRUenergy agrees that under the existing Rules inefficiencies are likely to arise where multiple generators seek to connect in a similar area.

We submit that there are two key reasons for this.

Barriers in the current connection framework to build scale efficient assets

TRUenergy concurs, that under the existing Rules potential economies of scale may be foregone if generators are unable to co-ordinate the timing of their connection to the shared network to allow for development of a shared connection asset. While arguably NSP's may be able to pre-empt possible future generator connection and justify investment under the RIT-T, it is our view that NSPs have limited incentive to bear the risk of building assets to an efficient scale in advance of further network connections under the current Rules.

The SENE Rule change seeks to overcome these current barriers to building assets to an efficient scale. Consumers underwrite the risk of any under utilised capacity in the SENE proposal, in exchange for the potential for lower wholesale and REC costs in the future. This structure overcomes NSP incentive barriers to ensure that the connection assets are scale efficient.

We believe that this represents an improvement to the current connection arrangements. As such – we support the proposal.

The current connection framework does not provide connection applicants with any property right for their investment in a connection asset

Currently, under the Rules, generators are free to connect to a connection asset that has been specifically built for another generator. Where this occurs, the original proponent of the connection asset can apply for a tariff reduction from the TNSP. We consider that these arrangements are inadequate and can be improved.

Generators acquire a firm access right when they pay to connect to a SENE. They get a tangible property right in exchange for their investment. Generators with firm right rights receive compensation when a new connection applicant connects and “constrains off” existing holders of a firm right on the SENE.

This revised approach represents an improvement to the current approach to building connection assets. The introduction of a firm transmission right on SENE addresses some of the deficiencies in the current approach. For example the original generator who took the risk of building the asset and funding it, is now able to enjoy the ongoing benefits of that investment while also allowing subsequent connectors to efficiently use any underutilised capacity to the benefit of the wider market.

1.2 If so, does the cost associated with these in-efficiencies justify amendments to the Rules?

TRUenergy believes the costs associated with these in-efficiencies (referred to above) justify amendments to the Rules.

Under the SENE proposal generators:

- Face lower connection costs as a result of SENEs
- Pay to connect to a SENE which means they are still exposed to a locational investment signal
- Get a firm transmission right on the SENE in effect guaranteeing that can enjoy the benefits of the connection asset for the life of their generation investment.

Ultimately lower generator costs should flow through the competitive wholesale and RET markets to deliver customer cost reductions in line with the National Electricity Objective. In our view these benefits warrant a rule change.

1.3 Do you agree that the proposed Rule change will lessen the risk of inefficient duplication of the assets?

TRUenergy agrees the Rule change will lessen the risk of in-efficient duplication of the assets.

We concur the risk of in-efficient duplication of connection assets by generators has been reduced by the AEMC accepting a rule change lodged by Grid Australia in April 2009 that assists NSPs to co-ordinate connection application enquiries¹. However, there is still extremely limited incentive in the current Rules for NSPs to take calculated risk required to fully deliver on potential scale efficiencies available in some situations.

In practice, TNSPs are reluctant to commit to build larger scale efficient network augmentations under the current regulatory regime in the absence of generators fully subscribing to all the capacity on these assets. While we understand that re-optimisation of regulated transmission electricity assets form the regulated asset base is an option no longer available to the AER under the revised Rules in Chapter 6A for non performing assets, TNSP will continue to refuse to build these assets where they believe that the generators that use them will not pay for their cost in full. As such – without the SENE proposal- .we have serious reservations that any of these assets would be built under the current framework.

The SENE rule change seeks to address this current deficiency in the Rules. As a result, it will reduce the risk of in-efficient duplication of connection assets.

D: Managing the risk of stranded assets

2. Will SENEs be efficiently sized and located so as to minimise risk to consumers?

While TRUenergy supports the SENE objective of delivering scale efficiencies associated with multiple connections in a particular area, we do recognise that the proposal does introduce the risk of over-investment at the expense of customers if selection criteria are too loose or poorly enforced.

¹ AEMC (2010) National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010 Consultation paper, 1 April, p.5

The draft SENE proposal has several checks and balances to reduce the risk of in-accurate generation forecasts which may lead to significant over investment that was ultimately underwritten by consumers. These include the AER and AEMO input, public consultation, as well as a requirement for at least one generator to commit to the SENE.

While we propose that the requirement for generator commitment should be increased from the draft proposed level (as outlined later in this paper), the general process proposed should deliver sufficient protections to ensure that only SENE's highly likely to deliver forecast benefits should proceed. Consequently, provided the generator connection requirements are firmed up, we believe the risk to customers of overinvestment will be acceptably low.

2.1 Are NSPs likely to construct SENEs that are efficiently sized and located? Is there a significant risk of over – investment?

We consider that there are good checks and balances in the SENE model to reduce the risk of in-accurate generation forecasts which may lead to asset stranding risk. They include:

- AEMO's duty to assess the generation forecast profiles. In addition, we support the MCE proposal that recommends a SENE only proceed if AEMO approves those forecasts.
- The AER option to disallow a proposed SENE. We would also support the AER review of the generation forecasts to safeguard against asset stranding risk

We concede that forecasting future generation profiles of specific generators can be difficult, particularly over long time frames. However, AEMO already carries out generation forecasts as part of its NTP role; and the AER is also experienced in assessing energy forecasts for network business as part of their rate review process. As such, we support an active role for both these entities in assessing generation forecasts for the purposes of assessing a SENE.

When coupled with our proposal to increase the number of executed connection agreements prior to SENE construction being triggered, the risk of overinvestment should be acceptably low. On the contrary, natural conservatism from the AEMO & the AER may trend toward under sizing rather than over sizing. On balance the risks should be acceptable.

2.2 Are the risks associated with asset stranding outweighed by the potential gains from efficiently sized network extensions?

TRUenergy believes that there are good checks and balances in the SENE model to reduce the risk of in-accurate generation forecasts which lead to asset stranding risk. The scale efficiencies that can be facilitated by the SENE proposal offer gains that outweigh the risks associated with the proposal.

2.2 Does the Rule change, as proposed, provide sufficient checks and balances to minimise risks to consumers?

TRUenergy believes that the draft rule contains a useful high level framework of checks and balances in the SENE model to minimise the risk to consumers. However, we think this aspect of the model can be improved.

For example, as a rule, we consider there should be more than one generator that connects to a SENE prior to commitment to the SENE proceeding. In fact, in order to reduce the asset stranding risk to consumers further - we believe SENEs should meet two conditions including the need for:

- 2 or more connection applicants should execute connection agreements to connect to the SENE prior to its construction; and
- These connection applicants should take up at least 50% of the SENE's capacity.

With this additional discipline in SENE selection, we believe the risks to consumers are appropriately balanced against longer term cost reductions.

E: Alternative mechanisms for managing risks

3 Are alternative risk mitigation measures more appropriate?

In general TRUenergy prefers market based approaches over central planning approaches to risk mitigation.

However, we consider that the in-efficiencies of the current connection framework can lead to the delayed timing of investments and the in-efficient duplication of connection assets. To extract this possible economy of scale, the SENE proposal is a reasonable hybrid between central planning and market solutions.

As noted above, we believe the trigger for a SENE should be strengthened to provide increased certainty that forecast benefits will be delivered by a SENE.

3.1 Who benefits from SENEs and who is best placed to manage the risk of asset stranding?

Consumers are the ultimate beneficiaries of the SENE proposal.

SENEs provide economies of scale that reduce connection costs to generators. Under this proposal, more generators will connect to the transmission system at a lower cost leading to improved competition in the generation sector. Consumers will benefit from this in the form of lower wholesale electricity and renewable energy certificate prices. Finally, the checks and balances which are built into the SENE proposal (Augmented as per our suggestion above) means that asset stranding risk is kept to a minimum.

3.2 Should the framework include a more explicit economic efficiency test? If so, what form should it take?

It is difficult to see a role for an economic efficiency test in the SENE – as presumably the existing RIT-T could allow development of any network assets that deliver broader economic benefits.

However some more specific information on what factors and approach will be applied by AEMO to identify and evaluate possible SENE areas would be beneficial. Increased clarity in this area would assist potential generation developers to take a view on the prospects for particular areas becoming classified as SENE zones at some time in the future. As a result resource exploration and development efforts can be undertaken with increased clarity around the potential for possible future SENE development.

It may be appropriate for AEMO to develop information or guidelines in this area via the Rules consultation process.

3.3 Would a market based approach to the sizing and location of SENEs be more appropriate? If so, in what form?

In general, TRUenergy prefers market based approaches to central planning mechanisms where possible. We remain concerned at the growing role for central planning based mechanisms under the Rules which can distort the market based investment concept on which Generation and Retail investment is based.

Despite this general preference, we consider that the potential efficiency gains targeted by the SENE proposal warrant an alternative approach

It is difficult to envisage a pure market based approach being able to capture the relevant efficiency due to timing differences in generator commitment decisions, and information co-ordination barriers resulting from the competitive generation investment process. A degree of central planning therefore seems difficult to avoidable in this instance. We note that the SENE draft rule contemplates a hybrid with some initial central planning involved in possible SENE zone identification, combined with an element of market initiation related to the Triggering of a SENE development.

Provided the protections for customers outlined in previous discussion are implemented, the SENE proposal therefore appears to be a reasonable balance between the market and central planning paradigms. After carefully considering this issue, we have not identified a preferable approach to what has been proposed.

F: Alternative configuration of SENEs

4 Will generators be able to connect to the SENEs in the most efficient configuration?

TRUenergy supports a flexible approach to the configuration of SENEs. It is impossible at this point to establish exactly what scenarios may emerge that allows scale efficiencies to be targeted in this way. Perhaps the preferred approach is to clearly define the principles that the SENE process aims to resolve, and allow AEMO, NSP's and the AER to ensure that any proposals that emerge are aligned with these principles.

4.1 Should the draft rule allow for configurations other than a "hub and spoke".

A flexible approach to the configuration of SENEs is supported as outlined above. As the markets' needs evolve, it may be appropriate to proceed with alternative approaches - Provided that any proposals clearly align with the core principles underpinning the SENE concept.

4.2 If so, how could the charging arrangement best promote efficient locational decisions by generators and by NSPs in locating SENEs?

Unless a strong case can be made, we would support all SENE users equally sharing the costs, and therefore equally sharing the efficiency savings.

An exception may be where a generators stand alone costs of connecting via a smaller asset independent of the SENE is less than the average costs of connecting to a SENE that shares its costs equally between generators (for example if the generator connected closer to the shared network than the other generators on the SENE). Such a situation may promote inefficient bypass and potential for capping the SENE cost at the stand alone cost should be factored in for any connectors assessed to be in this position at the time of the initial generation forecast (on which the SENE is based).

4.3 Should the cost of the SENE be spread across generators irrespective of where they locate?

As outlined above, costs should be evenly spread apart from the rare situation discussed if it is forecast that allowing lower costs to avoid potential bypass is expected to maximise overall cost savings.

To re-iterate, once the original forecast and cost allocation is finalised, any future cost adjustments (eg. for changes in regulated WACC if this option is chosen by the Generator) should continue to be allocated using this initial generation forecast so that it remains customers who receive the risks and benefits associated with more or less generation connecting over time compared to the original forecast.

G: Efficient use of electricity services

5. Will capacity be efficiently allocated to connecting generators?

The SENE proposal will lead to the efficient allocation of capacity to connecting generators. Each generator will receive the beneficial rights (on the SENE) related to their contracted capacity, and in return take the obligation to fund the assets and operations costs associated with delivery of these services.

5.1 Will the framework promote the efficient allocation of capacity on the SENE?

The SENE framework should promote the efficient allocation of capacity on the SENE.

Under the SENE rule proposal - once the capacity of the SENE is fully utilised - generators have two clear options to contract for additional access to the SENE. They include:

- The marginal generator connects to a SENE with insufficient capacity may choose to fund an augmentation to the SENE to provide additional power transfer capability agreed which can then be contracted to the Generator (if firm capacity is required); or

- The marginal generator connects to a SENE and chooses not to fund an augmentation, in which case that generator will be required to make compensation payments for any trading interval where it generates in excess of its trading capability and it has the effect of constraining off another generator connected to the SENE.

We note that the compensation payments for lost profit will be calculated by using an administratively determined marginal cost for the constrained generator, published by the AER for different categories of generation.

The AER is required to outline these arrangements more specifically in Draft Rule 5.5A .14. After considering these more carefully, we support the second set of arrangements that compensate “constrained off” generators for loss of profit in the SENE proposal.

The arrangements provide that:

- The additional trading amount that a generator would have received had it not been constrained off below its contracted power transfer capability less the costs avoided as a result of being constrained off below its power transfer capability.
- The profit amount would be based on the quantity of MWs that was not required to generate and an estimate of the generators marginal cost
- The AER would calculate an approximate marginal cost for identified generating facilities and publish that marginal costing on its web site
- The AER would consider costing for generation based on the facility type, fuel type and the facility location to develop marginal costs. We suggest the **minimum** possible marginal price should be used for this purpose in cases where alternate fuels or volatile fuel costs are associated with the particular plant. An average or high cost estimate may substantially devalue the compensation cash flow received thereby undermining generator access rights on the SENE.

While theoretically the fuel cost is a saving, in many cases this will be minimal (particularly if the SENE is connected to a low marginal cost resource area). In many cases the administrative costs of developing and publishing these prices are likely to be high and may outweigh the benefits of including them in a calculation. The AEMC should consider this question and opt to remove the use of marginal costs unless a strong case can be made they will be significant in most SENE’s.

5.2 More generally, will the SENE framework result in efficient outcomes in the wholesale market?

TRUenergy agrees the SENE framework will result in efficient outcomes in the wholesale market. The key benefits of this proposal include:

Improved certainty of access

Generators get improved certainty of access over connection assets they fund in relation to the SENE. This reduces uncertainty in the generator investment process and will encourage more timely investment in generation and help facilitate greater competition in the generation market.

Capture of efficiency benefits

As outlined in previous discussions, the scale efficiencies captured by the SENE should reduce project costs for generation developers. This will ultimately flow through to customers via the competitive market process, reducing price pressure on the Renewable Energy Certificate and Wholesale contract price.

5.3 Could an interruptible generator connect to the SENE? If so, what arrangements would need to be in place to ensure that the full cost of the SENE can be recovered?

TRUenergy agrees with the AEMC that if interruptible generators are allowed to connect to a SENE prior to the full SENE firm capacity being contracted – then the SENE would not recover its costs in full. On this basis, we believe that interruptible generators should **only** be free to connect to the SENE once **all** firm capacity has been contracted. In short, the SENE model assumes that the cost of recovering the asset comes from generators that connect and pay for a firm right.

This concept is consistent with open access. It just means that generators that seek to connect to a SENE must pay for that right to connect. In doing so – they obtain the benefit of scale efficiency forecast for the SENE, but must also pay their fair share of the connection asset costs. This should be cheaper for the generator than if it had to fund a stand alone asset should the SENE not have been developed.

They also receive capacity rights which could be sold to future new connectors once the SENE was fully contracted, in cases where a generator was happy to take the risk of paying compensation to firm users in the event they are involved in congestion.

It is also worth stating that it would be inappropriate to allow interruptible connection while uncontracted firm capacity remained unsold. Such an outcome would leave the first mover disadvantage to the original SENE user and would also undermine the AEMO generation forecast process. Until capacity equivalent to the original generation forecast was contracted the SENE would remain under funded.

H: Distinguishing SENE from the shared network

6 How could loops to the shared network and load connections to SENE be best accommodated?

The potential for loop flows seems a relatively remote possibility at this time, while the risk of congestion in the shared network impacting a SENE appears more likely. In this context, the interaction of the SENE and the shared network is an issue that may need further consideration.

We suggest that the existence of capacity rights on SENE does not necessarily imply that the SENE framework can not work in the context of later meshing of the SENE into the wider shared network. This is explored further below.

The question of congestion in the shared network downstream of a SENE cannot be addressed in this rule change, and should be considered as part of the broader shared network arrangements. Until this time, some clarity about how rights in the SENE may be respectively allocated in the face of downstream congestion would be beneficial. Some form of pro-rating of available SENE flow between rights holders under such a scenario may be appropriate.

We consider that this issue and its potential consequences should be considered in more detail in the future, most likely in the upcoming MCE's Transmission Review which is scheduled to be undertaken over the next year.

6.1 Should SENE be "ring fenced" from the shared network to enable the framework to operate? If so, should a time limit apply to such ring fencing arrangements?

TRUenergy disagrees that SENE should be ring fenced from the shared network.

We believe that generators who pay for firm rights on the SENE should have them recognised over the period of their generator's asset life. It is important that generators can forecast both likely future congestion and network costs accurately at the time of commitment so that projects can be financed.

We suggest that the idea that SENE need to be "ring fenced" is premature at this stage as it is not clear what areas SENE's may end up being proposed in, and therefore if there is any pressing need to address this matter now. Further it would seem possible in some cases for SENE's to be incorporated into network loops without necessarily impacting on contracted access levels, or for any such shared network impacts to be factored into any decision to link the SENE into a network loop. This could be implemented in a similar way to the existing generator technical standard that requires new connections not to impact on inter-regional flows etc. Under this approach NSP's seeking to incorporate a SENE into the broader network should only do so if existing network users access is not negatively impacted.

Given a broader review of transmission arrangements is proposed, this issue could be further considered along with that review.

6.2 Alternatively, how could SENEs best be incorporated into the shared network? In particular, how could the challenges arising from capacity rights to the former SENE best be addressed?

Whilst the prospect of incorporating the SENE into the shared network raises some complex issues, it may be that situations could arise where doing so may deliver market benefits that warrant such actions and therefore blanket exclusion is not desirable. Having said that, it will be important that contracted SENE capacity rights should not be undermined by such an outcome. To do so would compromise investment certainty.

TRUenergy suggests the following measures to be incorporated into any process of absorbing a SENE into the shared network:

- An option in some situations may be to have the shared network contract for any unutilised SENE capacity and take exposure to compensation payments to other contracted parties if shared flows impinge on existing SENE rights. This would ensure SENE costs are recovered, allow the costs imposed on existing rights holders to be factored into the RIT-T assessment underpinning the decision to incorporate the SENE into the shared network. Under this approach any compensation funds payable by the connecting NSP would be recoverable via customer UOS charges as with other network support arrangements.
- In situations where the SENE has been fully subscribed, a shared network connection could be allowed provided that existing rights to compensation were maintained on the SENE. Again the costs of impacting existing SENE users would be factored into the RIT-T to ensure the expected net benefits take into account impacts on existing users.
- The NSP proposing to incorporate a SENE into the shared network should fund an engineering report that proves that the augmented network will not impact adversely on existing rights holders (or the situations when any impact occurs and forecast compensation payments). Existing holders of firm rights on the SENE should have a right to review, comment on, and ultimately appeal against such a report to ensure that the assumptions are realistic and forecast impacts are fully explored. The AER should then be obliged to ensure right holder concerns are addressed prior to approving incorporation of the SENE into the shared network.

These matters should be considered further in the MCE Transmission Review which will proceed later this year.

I: Specific Rule clauses

Several more specific suggestions on the following draft Rule clauses are provided in this section. These concerns tend to concern cost recover, and how SENE charges are calculated.

At a generic generator level, we note that generator developers have a preference to lock in major project costs prior to commitment for the term of the investment. This certainly includes capital costs and there is a preference to have some discipline on operational costs to contracted suppliers as well. If insufficient certainty can not be obtained on major cost items (e.g. network connection assets), developers are likely to face problems financing their projects – particularly if project finance is being used.

In contrast the existing rule contemplates 5 year reviews of all SENE costs and charges. Possible perverse incentives created by this proposal in relation to capital and operational costs are explored further below.

Given that some generation developers may require certainty on the return of capital component of their transmission cost to make their project bankable, the option to agree a rate of return for the life of the connection asset should be available (along the lines of the exiting connection asset approach). For developers who may be able to contemplate greater cost volatility in connection charges, the option to select the regulated WACC and take the risk of a variation in the capital return component of costs each five years may be attractive, and would certainly be consistent with other charges faced by customers under existing transmission arrangements.

TRUenergy supports flexibility for the generator to choose which form of capital return it may prefer depending on its preference. It is important that the generator has the right to choose in this case, as otherwise the NSP is likely to face incentives to always opt for an unregulated WACC particularly given its monopolistic bargaining position – which could negatively impact on SENE outcomes.

Section 5.5 A.13 D 1 (i) SENE charges

We understand this clause requires the relevant NSP to review its charges for SENEs on commissioning and every 5 years after that.

Specifically, NSPs are required to accommodate for any material variation in forecast costs used to calculate the current SENE charges and actual costs incurred up to the review date.

In general we have some concerns with the incentives this may create for NSP's (e.g. to underestimate SENE capital or operating costs in the initial commitment decision, and then subsequently push through these costs to network users at a later date). A more standard approach of the NSP as developer taking on such risks and potentially factoring in cost escalators may be more appropriate and consistent with requirements for generators to lock in cost structures of major plant elements prior to commitment.

Putting aside these incentive matters, in any event this section of the Rules needs to be clarified to make it clear that the SENE charges to apply are calculated by allocating any adjusted costs across the original forecasts that were used to calculate charges for the generators at the beginning of the SENE project.

We are concerned that if a generator fails to connect to a SENE during a 5 year regulatory period and an NSP alters its demand forecast downwards for the next regulatory period, then the remaining generators on the SENE would end up paying a much higher charge than originally forecast. Such an outcome would undermine requirements for investor certainty, and leave the SENE proposal untenable as forecast errors could leave generators facing higher costs than if they had connected to the network on a stand alone basis.

We submit that this outcome is inconsistent with Clause 5.5 A.13 (l) - which clearly states that to the extent that a SENE recovers less than its revenue requirement in any year, then the relevant NSP can only recover its shortfall in revenue from customers. As such - we do not expect any revenue shortfalls that occurred at a five year regulatory review due to a generator's late connection or because it did not connect at all, to be underwritten by the generators using the SENE.

Section 5.5 A.13 D 2 (i) SENE charges

Under this clause NSPs are required to alter their SENE charges to reflect any change in its financing costs.

We believe that clause 5.5 A.13 D 2 (ii) allows an NSP to change its SENE charges to cater for any variations in its return on capital. We would interpret this clause as a direct reference to an NSP's (WACC). We expect the AER to apply the traditional methodology for calculating the WACC to determine the NSP's charges for the SENE.

Therefore, it is unnecessary to broad clause like 5.5 A.13 D 2 (i) that could potentially allow an NSP to interpret this clause to allow it to alter its SENE charges based on its specific financing costs. Potentially, this could allow an NSP who borrowed inefficiently at high rates in the capital market for both debt and equity to be reflected in its charges. This would appear to undermine the whole basis of using a regulated return to set NSP revenues, and remove incentives on NSP's to fund the SENE efficiently.

The AEMC should remove this clause in the final rule.

I: Conclusion

TRUenergy appreciates the opportunity to make a submission in response to the Ministerial Council on Energy's (MCE) rule change proposal, entitled National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010.

We would welcome the opportunity to further discuss our submission (if required).

For further inquiries regarding this submission, please feel free to contact Mr. Con Noutso – Manager Regulation (Access) at TRUenergy on Tel: 03 8628-1240.

Regards

A handwritten signature in black ink, appearing to read 'Con Noutso', written in a cursive style.

Con Noutso
Manager Regulation (Access)