GEODYNAMICS
LIMITED

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09/11/2010

Elisabeth Ross
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Electronic Submission

AEMC Project Reference Code: ERC0100

Dear Elisabeth,

RE: Options Paper, National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010

Geodynamics welcomes the opportunity to comment on the options paper regarding the implementation of the proposed Scale Efficient Network Extensions (SENE) rule.

Geodynamics would like to reiterate its wholehearted support for the development of the SENE rule as outlined in our submission to the original consultation paper. Geodynamics considers it is vital that impediments to the SENE process which could see it fail before it has begun are removed. It would be a waste of effort and resources if the SENE process were to be developed but a SENE never built. Thus SENE framework settings should be as favourable to productive SENE development as reasonably possible. Should the framework settings prove to be too generous to generation project proponents benefiting from the SENE then the SENE framework can be reviewed and revised once the National Electricity Market has some real experience with the SENE process.

With regards to the options outlined in the options paper, Geodynamics supports Option 1. Option 1 maintains the intent of the SENE proposal to support productive development of scale efficient network extensions. The addition of the cost threshold trigger such that the SENE will only be built once a proportion of the capital costs of the investment are underwritten by firm connection agreements with generators is considered an appropriate protection for end use customers (25 per cent postulated in the options paper).

Geodynamics does not support Option 2 as the explicit economic test proposed on top of the 25 per cent cost threshold as per Option 1 will be an additional regulation and an unnecessary burden. Option 1 provides sufficient mitigation of the risk to end use customers that the network capacity they have underwritten will go unused. This mitigation is provided by the fact that:

- The Australian Energy Market Operator (AEMO) assesses potential scale efficient generation zones;
- Interested generators lodge connection enquiries with the Network Service Provider (NSP);

- A proportion (maybe as high as 25 per cent) of the capital costs of the SENE are underwritten by firm connection agreements; and
- The Australian Energy Regulator (AER) performs full economic and technical evaluation of the SENE.

The critical risk mitigation is provided by the 25 per cent cost threshold. In order to cross this threshold a generation project or projects must be sufficiently commercially feasible that they are able to underwrite 25 per cent of the capital costs of the SENE. This is a significant commitment. If there are sufficient energy resources to green-light a project or projects to underwrite the first 25 per cent of capital costs for the SENE, it is highly probable that there are more commercially viable electricity generation resources that will utilise the SENE to fund the remainder of the SENE costs. This is especially true given the benefit to prospective projects of the network investment provided by the SENE. These projects would have been identified by AEMO and would have submitted connection enquiries to the NSP.

A further economic test as proposed in Option 2 would be additional regulation and an unnecessary burden, and would provide minimal additional risk mitigation.

Geodynamics considers that Option 3 as proposed by Grid Australia has conceptual merit. Pragmatically though, the application of the Regulatory Investment Test for Transmission (RIT-T) will mean the timeframes for SENE development run the risk of becoming too protracted and provide a disincentive to the first generator(s) connecting to the SENE to commit to the SENE process. This is because the RIT-T process could add up to two years to the SENE development timelines. The first connecting generator(s) would be faced with the choice of paying the standalone costs and proceeding “immediately” with the network connection development or committing to the SENE process and waiting for the outcome of the RIT-T. The outcome of the RIT-T would either “pass” or “fail” the RIT-T. In the event of a “fail” the first connecting generator(s) would still pay the standalone cost but the network connection timeframes for the project would have been pushed out one or two years due to the RIT-T process. In the event of a “pass” the first connecting generator(s) would initially pay the standalone cost and this cost would reduce over time as new generators connect to the SENE. This would ultimately be a material benefit to the first connecting generator(s), but again there would be the cost associated with the protracted timeframes. On balance the uncertainty of the RIT-T outcome is likely to lead to the first connecting generator(s) to prefer the certainty of paying the standalone costs and proceeding “immediately” with the network connection development.

Thus even though Geodynamics considers Option 3 has conceptual merit, Geodynamics does not support Option 3. Likewise Geodynamics does not support the variation of Option 3, Option 4 and considers it less preferable to Option 3. The difference between Option 3 and Option 4 is that in Option 3 customers fund the incremental capacity for the life of the asset, whilst in Option 4 the cost funded by customers reduces over time as new generators connect to the SENE. Given that the incremental capacity under Option 3 and 4 has been found to satisfy the RIT-T it is appropriate that customers fund this cost as they would other network assets that had satisfied the RIT-T. As new generators connect to the SENE this is the realisation of the benefit foreshadowed by the RIT-T. This is the outcome that customers would desire. I.e. a network extension is developed primarily funded by the first connecting generator(s), with incremental capacity funded by customers. Subsequently new generators utilise the incremental capacity thus yielding the expected return on investment to customers foreshadowed by the RIT-T through lower cost (bundled) new generation and network development and the flow-on result of lower end user costs.

Geodynamics does not support Option 5. As outlined in the options paper,

"while there is no formal relationship between the RIT-T and service classification, a TNSP might consider that the extension provides system wide benefits if it passes the RIT-T and therefore meets the definition of a prescribed transmission service. This would then imply that customers would ultimately fund the extension."

Geodynamics supports the interpretation that if a network extension passes the RIT-T it should be classified as a prescribed service and thus be funded by customers. Thus Option 5, which proposes the application of the RIT-T but the funding of the network extension by connecting generators, is shifting a cost that would be funded by end use customers back onto generators. This will have the opposite effect to that intended for the SENE which is to promote scale efficient network extension and the associated new generation.

In summary, Geodynamics supports the development of SENE and of the Options outlined in the options paper, has a preference for Option 1.

If you wish to discuss Geodynamics submission you can contact me on 07 3721 7522 or at alistair.webb@geodynamics.com.au.

Yours sincerely
Geodynamics Limited

Alistair Webb
Commercial Manager