Vestas Australian Wind Technology Pty Ltd

13 May 2010

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

By email: aemc@aemc.gov.au

Dear Sir or Madam

Submission: National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010 ["ERC0100"]

Vestas welcomes the opportunity to make a submission in response to the AEMC's Consultation Paper on the National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010 (the **Consultation Paper**), proposed by the Ministerial Council on Energy (**MCE**).

Vestas is the world's leading supplier of wind power solutions, having installed more than 39,000 wind turbines across the globe. In Australia we have been responsible for the supply of more than half of the wind energy capacity to date.

Vestas previously participated in the AEMC's Review of Energy Market Frameworks in light of Climate Change Policies (the **Review**) during 2009, so many of our comments on this proposed Rule change may seem familiar to the reader.

Background to the Rule change

As the Consultation Paper correctly notes, this proposed Rule change has arisen in response to the conclusions of the AEMC in the Review in 2009. That Review considered the likely impact of the 20% Renewable Energy Target (**RET**) and the Carbon Pollution Reduction Scheme (**CPRS**) and the significant change in generation mix if the Australian Government's policies are to be successful.

Following the recent announcement by the Prime Minister, the CPRS will not be introduced until at least 2013, if at all.

However, the Australian Government's 20% RET is now enshrined in law. The Australian Energy Market Operator (**AEMO**) recognised this late last year in its

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National Transmission Statement, where it described the RET as "a legislative reality".

The Consultation Paper notes the RET will be "the driving force behind new investment in renewable generation", and later highlights the likelihood of most renewable energy generators being located in places that are remote from the existing network and load centres. New transmission lines will be required if these generators are going to be built and become part of the National Electricity Market (**NEM**).

Additionally - and most notably - both the AEMC and the MCE have stated that they consider the existing market framework is unlikely to promote the efficient connection of multiple generators in the same location over a period of time.

In response to these issues, the AEMC and (subsequently) the MCE proposed the Scale Efficient Network Extensions (**SENE**) concept. The SENE concept also sets out to address issues relating to possible duplication of costs, and risk allocation between market participants.

Transmission investment

For some time now, Vestas has been a supporter of a change in transmission policy that promotes the renewable energy sector so that the Australian Government's policy of lifting Australia's level of renewable energy from the current level of around 8% of electricity supplies to 20% by the year 2020.

It appears almost unanimous from earlier submissions to the AEMC's Review during 2009 that new transmission investment will be required to unlock Australia's significant untapped renewable energy resources, which are in many cases located well away from existing power station, transmission lines and load centres.

It also seems that many stakeholders share the same view as the AEMC and the MCE that the existing model for bilateral negotiation for new connections will not cope efficiently with multiple connection applications.

However, other nations have faced this challenge and found solutions. The most widely known seems to be the concept of Competitive Renewable Energy Zones (**CREZ**s) in Texas, administered by grid manager ERCOT.

Vestas supports the CREZ framework and considers it could be potentially used in Australia, although with significant changes to existing transmission pricing rules.

The SENE proposal will not work

Vestas takes the view that the SENE concept may have some limited success in addressing the above points, but it will not be able to play a significant role in delivering the investment required in transmission in remote areas in time to achieve

the Australian Government's legislated policy of renewable energy providing 20% of Australia's electricity needs by the year 2020.

Almost as if to illustrate this point, the MCE's SENE Rule change proposal does not actually mention "renewable energy" once in its entire 35 pages. It is as if renewable energy does not exist, and the RET was never passed by the Australian Parliament.

There's a reason for this. Renewable energy is not mentioned in the National Electricity Objective (**NEO**) in the National Electricity Law (**NEL**) either. In fact, the NEO strives to avoid any differential treatment of electricity generation sources.

The AEMC's own website states:

> *In deciding whether or not to change the National Electricity Rules… the AEMC must be satisfied that the proposed Rule is likely to contribute to the achievement of the National Electricity Objective.*

The RET legislation unashamedly gives primacy to renewable energy generation. But the NEO and the NEL take a completely neutral stance.

Unless and until the Australian Parliament amends the NEL to include some weight, relevance or value ascribed to the achievement of Government policies such as the RET, then agencies like the AEMC, AEMO and the AER have got their hands tied.

Those agencies are bound to make their decisions and carry out their work in line with the NEO, not with the RET. Which also means they are duty bound to ignore government policies and any legislation that is inconsistent in any way with the NEO – especially the RET.

If the Australian Government wants to achieve its target of 20% renewable energy by the year 2020, it cannot expect agencies like the AEMC, AEMO and the AER to play any part in this effort if it would require any steps to be taken that the NEO would not otherwise compel.

Agencies like the AEMC and the AEMO are well aware that the Government has policies in place to change the electricity generation mix and increase the level of renewable energy. Their publications in 2009 make this clear.

But the NEO in its current form compels these agencies to ignore this in their decision-making processes.

This is not the fault of the AEMC or of the AEMO, nor is it something those agencies are able to address.

It is simply a situation that has arisen due to a fundamental inconsistency in legislation that will prevent these agencies doing anything to help achieve investment

outcomes such as those set out in the RET legislation and accompanying government statements.

Next steps

As set out above, Vestas considers that the SENE proposal for a Rule change is unlikely to have much impact on addressing the issues set out in the AEMC's earlier Review in 2009.

The proposed nature of the SENE concept appears to create a complicated and lengthy process which would not result in timely investment in new transmission lines, and does not adequately address the high cost for developers of new renewable energy generation facilities to connect to the NEM.

For this reason, Vestas has chosen not to address the detail of the SENE Rule change proposal in this submission because the solutions to the above issues do not lie in the detail of that proposal.

Instead, Vestas considers that the Australian Government should amend the NEL and other relevant energy legislation to include a new NEO, one that perhaps addresses matters such as greenhouse emissions from the energy sector and the promotion of renewable energy.

We will submit this idea to the Government and the MCE, independent of the current AEMC consultations around this SENE Rule change proposal.

Vestas staff would be pleased to meet with AEMC staff to discuss our submission and answer any other questions they may have. Please contact the writer on (03) 8698 7300 to do so.

Yours sincerely,

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