

Scale Efficient Network Extensions

Draft Rule Determination: 10 March 2011

Australia's electricity generation mix is changing. The expanded RET and other policy initiatives directed at carbon reduction are intended to change the pattern of generation investment in Australia's energy markets. There is, however, some uncertainty in the long term about the type and location of new generation investment that is expected to enter the market. It is therefore important that market and regulatory frameworks are able to accommodate a broad range of possible outcomes.

The Scale Efficient Network Extensions (SENEs) draft Rule aims to strengthen the existing connections framework to ensure it can continue to meet customers' energy needs, at an efficient cost, in light of changing patterns of generation that may result from future policy and technology developments.

Promoting efficient investment in electricity services

On 10 March 2011, the AEMC called for community comment on its draft Rule determination for the SENEs Rule change.

The Commission invites submissions to its draft Rule determination, including draft Rule, by 5 May 2011.

The final Rule determination and final Rule are due to be published on 30 June 2011.

The draft Rule

The Commission's draft determination is to make a more preferable Rule which seeks to allocate risk and cost to market participants rather than to consumers. This differs from the proposed Rule as well as from the options presented in the AEMC's Options Paper.

The draft Rule, if made, would require transmission businesses to undertake and publish, on request, specific locational studies to reveal to the market potential opportunities for efficiency gains from the coordinated connection of expected new generators in a particular area.

The study would help potential investors make informed, commercial decisions to fund a SENE, having weighed the potential gains from coordinated, efficient generator connection arrangements against the potential costs of assets not being fully used.

Decisions to fund, construct, operate and connect to a SENE would then be made by market participants and investors within the existing framework for connections in the Rules.

Reasons for the Commission's decision

The Commission has made this draft Rule determination after carefully considering the arguments and evidence put forward in submissions and undertaking further analysis.

In coming to its draft decision, the Commission has considered what mechanisms are likely to contribute to minimising total system costs over time. The Commission considers that this will occur where an appropriate trade-off is made between:

1. building spare transmission capacity in anticipation of future generation so as to capture the scale economies associated with transmission investment and facilitating efficient generation entry; and

- the risk that the expected additional generation investment in a specific location does not occur, thereby stranding that spare capacity.

This trade-off is best made by market participants with the appropriate information, ability and incentive to manage the asset stranding risk.

Scale efficiency gains will only be realised where transmission capacity built in anticipation of future generator connections is utilised - that is, where generation materialises and connects to a SENE as forecast. It is therefore appropriate that risk is allocated to those entities best able to assess and manage it.

The Commission considers that the draft Rule provides an appropriate and proportionate response to the issues raised in the Rule change request and is more likely to contribute to achievement of the NEO than the alternatives considered. This approach also assists in overcoming any genuine first mover disadvantage where the first generator is able to negotiate a charge that is lower than the amount it would be charged to connect in the absence of a SENE.

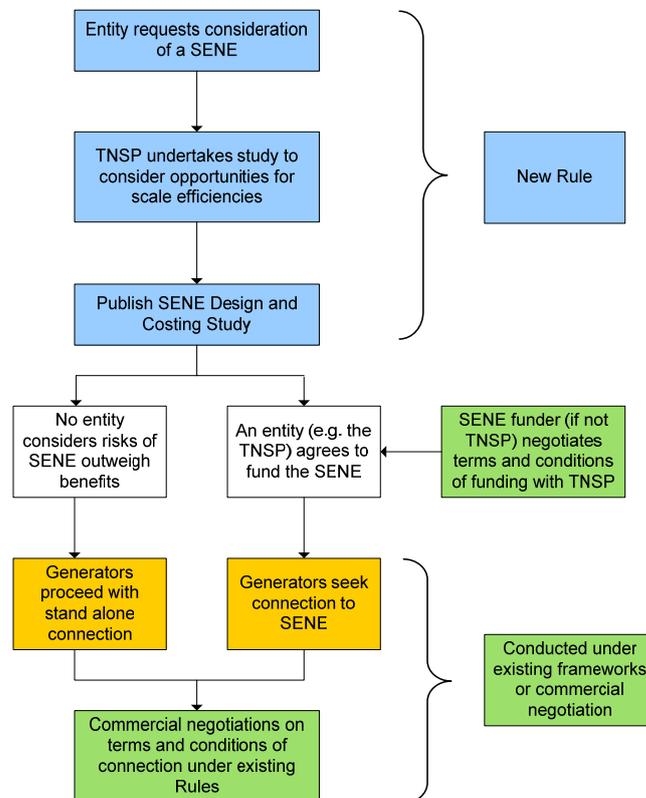
Background

SENEs were first considered in the context of the AEMC's review of energy market frameworks in light of climate change policies (Climate Change Review).

In the Climate Change Review final report submitted to the MCE, the AEMC recommended a number of changes to help strengthen energy market frameworks. One of the key recommendations was the introduction of a mechanism - SENEs - to help promote the efficient connection of clusters of new generation to the electricity networks as new generation connects over a period of time.

The MCE endorsed the AEMC's recommendation and in February 2010, requested the AEMC to progress consideration of the associated SENE Rule change proposal, having regard to the MCE's response and suggested amendments. The AEMC formally commenced its consideration of the Rule Change Request and first round of consultation in April 2010.

The draft Rule



**AEMC Chairman, John Pierce
AEMC Chief Executive, Steven Graham
10 March 2011**