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John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South, NSW 1235
Lodged online at www.aemc.gov.au

PROJECT REFERENCE CODE: ERC0100

**SUBMISSION IN RESPONSE TO NATIONAL ELECTRICITY AMENDMENT
(SCALE EFFICIENT NETWORK EXTENSIONS) RULE 2011**

Dear Mr. Pierce,

Infigen Energy appreciates the Australian Energy Market Commission (AEMC) for the opportunity to comment on Project Reference Code: ERC0100 – the AEMC’s National Electricity Amendment (Scale Efficient Network Extensions) Rule 2011 (SENE).

Infigen Energy (ASX: IFN) is Australia’s leading specialist renewable energy business. Infigen has five major wind farms in Australia with a total capacity of 508MW, and the future growth of our business is focused on Australia. Infigen also owns and operates US and German wind energy businesses taking its aggregate wind energy business interests to 35 wind farms with a total capacity of 2,194MW. Infigen Energy is the largest owner of wind energy facilities in Australia and was also shortlisted, along with its partner Suntech, for the Commonwealth’s PV Solar Flagships program.

Infigen Energy is very surprised and disappointed with the proposed SENE rule change for two key reasons.

1. The final draft rule does not address the problem SENEs are supposed to solve.

The draft rule presupposes that a generator, NSP or other private party will fund a SENE and then wait for other generators to connect. All of these options are extremely unlikely to occur.

- A generator, if they can afford to build a dedicated connection sized for their project, will almost certainly undertake this option. Why would a generator risk significant additional capital building an oversized connection which their competitors can then utilise---to potentially constrain them off the network? As Australia’s largest owner of wind farms, we can assure the AEMC that this is a heroic assumption.

If a generator can not afford their own connection to a remote generation site, then the potential generation plant will not be built even though, as part of a SENE as envisioned by the MCE, such a generation site, along with others connecting to the SENE, might well be economically viable and increase competition in the market.

- NSPs are guaranteed a rate of return on their regulated assets. Why would an NSP spend their capital on an unregulated asset (an undersubscribed SENE) likely to have similar returns to their regulated assets which have a risk-free guaranteed return?
- It is quite clear that 3rd party companies, with no financial interest, or likely much expertise, in the generation or transmission of electricity would be even less likely to invest in constructing a SENE.

Therefore, the most likely outcome of this draft rule would be that no SENEs would be constructed and the problem meant to be addressed by SENEs would remain unresolved.

2. The final draft rule bears little resemblance to the MCE's rule change request in February 2010, or any of the options discussed in the AMEC's Issues paper in April 2010 or Options paper in September 2010.

The MCE made it perfectly clear in their rule change request of February 2010 that customers, with significant measures and safeguards in place, would carry the risk until future generators connected to the SENEs. One of the bullet points from their rule change request stated,

- "Customers will be exposed to some of the costs of the SENE if generators arrive late or do not materialise, but will receive payments if generators arrive early or in excess of forecasts. The revenue earned by network businesses will be set to be constant (in real terms) over the economic life of the asset. Therefore, customers will initially fund some spare capacity by will repaid over time."

The MCE also made it very clear that the rule change request was in line with the National Electricity Objective (NEO). Their letter describes for a page and a half in item #4 why the proposed rule change was well aligned with the NEO. Infigen Energy agrees with the MCE's arguments in this regard and is quite surprised that the AEMC now considers the MCE's SENE concept to be at odds with the NEO.

Infigen Energy has made submissions to both the Issues Paper and Options Paper supporting the general thrust of the SENE rule change request and making some suggestions and comments on the options proposed. The key design feature of the SENE in the Issues Paper, as well as **all five** options presented in the Options Paper was that customers would carry the risk, with appropriate measures and safeguards, until future generators connect. The present draft rule proposes the exact opposite concept with a market participant (or other



party) carrying this risk. One could argue that the SENE Issues Paper and Options Paper might as well not have been circulated at all as the final draft of the rule has taken off in an entirely different direction from all of the previous consultation.

If after receiving and considering the submissions to this SENE rule, the AEMC continues to consider the final draft rule to be the most effective solution to the issue of efficiently connecting remote generation, then Infigen Energy would respectfully request that the AEMC not implement this rule, and instead seek specific direction from the MCE to begin a new draft rule request for the concept of SENEs funded by market participants. It is not an appropriate rule change process to spend over one year considering issues and options in great detail based on one fundamental concept, and then at the 11th hour, offer up the final draft of a new rule based on a completely different concept.

We would be pleased to discuss or answer any questions you might have with regards to this submission at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "Jonathan Upson". The signature is fluid and cursive.

Jonathan Upson
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