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Government
of South Australia

Minister for Transport

Minister for Infrastructure

Minister for Energy

12th Floor, Roma Mitchell House

136 North Terrace

Adelaide SA 5000

GPO Box 2969

Adelaide SA 5001

DX 154

Tel 08 8226 1210

Fax 08 8226 0844

Dr John Tamblyn
Chairperson
Australian Energy Market Commission
AEMC Submissions
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Dr Tamblyn

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Review of Energy Market Frameworks in light of Climate Change Policies, (Review) First Interim Report.

As noted by the AEMC, a potential reserve shortfall in the short term in the Victorian and South Australian regions is an important issue to be addressed. The recent heatwave event in the southern states (January and February 2009) re-emphasises the development of a more responsive reserve trader approach. Action should be undertaken to ensure that an appropriate framework is developed and implemented as a matter of priority. I draw the AEMC's attention to the Electricity Supply Industry Planning Council's submission the AEMC's Comprehensive Reliability Review of 11 August 2006, proposing a standing reserve capacity offer model and my submission of 8 September 2006.

The AEMC should consider all options for connecting new generators to the network to enable stakeholders the opportunity to provide their views on such an important issue as part of this Review. Of the four options that were identified in the First Interim Report and subject to analysis by the National Transmission Planner, Option 4 with funding from Infrastructure Australia or the Australian Government should be considered further as this allows for the costs of nationally significant projects to be shared by all Australians equitably. Alternatively, inter-regional transmission charging should be established to achieve this outcome. Option 1 also warrants further consideration as it will provide an incremental improvement to the NEM through better coordination amongst renewable energy proponents.

Congestion is already having a market impact in South Australia. The Electricity Supply Industry Planning Council's 2008 Annual Planning Report highlights the transmission system in South Australia's mid-north is already experiencing increased congestion due to wind projects. This is likely to be exacerbated with additional wind generation arising from the RET. I support ESCOSA's continued use of wind farm licensing conditions as a way to ensure stability and security of the South Australian electricity network.

As highlighted in my commentary on the Scoping Paper, this is an ideal opportunity to review and make appropriate changes to deal with congestion. It should enable the development of a robust framework to support a sustainable congestion

management regime. I strongly encourage you to consider congestion and dynamic efficiency as material issues in the Review.

In regards to the flexibility of current retail price regulation arrangements to deal with potentially significant cost increases associated with the CPRS and expanded RET, the Standing Contract regulatory framework in South Australia has been shown to be flexible when adjusting for changes in underlying costs, whilst maintaining a transparent, justifiable process. This framework provides for CPRS related costs to be passed through to South Australian customers. The MCE will request COAG's endorsement to amend the 2006 Australian Energy Market Agreement to ensure this framework provides for CPRS related costs to be passed through to customers.

The AEMC's approach in this area has a strong focus on the needs of retailers. The public confidence achieved by independent oversight of retail pricing is considered to be especially important at a time of implementing such major change as will occur with the commencement of the CPRS and expanded RET.

As the AEMC notes, the Ministerial Council on Energy is currently developing a national framework for Retailer of Last Resort (RoLR) and this work should be progressed as quickly as possible. It is not clear that the AEMC's review can do anymore than note the urgency in developing a robust national scheme.

The South Australian Government fully supports the objective of having a functioning electricity RoLR scheme in place. This would be required regardless of the pending commencement of the CPRS.

On a minor matter I note that there is some confusion on page 55 of your report with regard to the RoLR in South Australia. ETSA Utilities remains the South Australia RoLR and should the host retailer fail in South Australia under current arrangements, ETSA Utilities would have the ability to seek assistance from other retailers to perform its RoLR function.

Thank you for the opportunity to make a submission to this stage of the Review.

Yours sincerely



HON PATRICK CONLON MP
MINISTER FOR ENERGY

15 March 2009