

## Scale Efficient Network Extensions

Final Rule Determination: 30 June 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) Rule aims to strengthen the existing connections framework in light of changing patterns of generation that may result from future policy and technology developments.**

### Promoting efficient investment in electricity services

On 30 June 2011, the AEMC published its final Rule determination and Rule for the SENEs Rule change request.

#### The final Rule determination

The Commission's final determination is to make a Rule which is largely reflective of, and consistent with, the draft Rule determination and draft Rule, with some minor clarifications.

The Rule as Made differs from the originally proposed Rule as well as the options presented in the AEMC's Options Paper. The key advantage of the Rule as Made is that it does not compel anyone to bear the risk and cost of stranded assets. Rather, it provides a mechanism under which opportunities to capture scale efficiencies can be made transparent.

The Rule as Made requires 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.

Broader issues around access rights and connection that have been raised during consultation on this Rule change request will be considered holistically as part of the Transmission Frameworks Review currently being undertaken by the AEMC.

#### Reasons for the Commission's decision

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

In coming to its final 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 capacity in anticipation of future generation so as to capture the scale economies associated with transmission investment and facilitating generation entry; and
2. the risk that the expected addition generation investment in a specific location does not occur, thereby stranding that spare capacity.

The Rule as Made provides a mechanism under which the opportunities to capture scale efficiencies can be made transparent to the market.

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

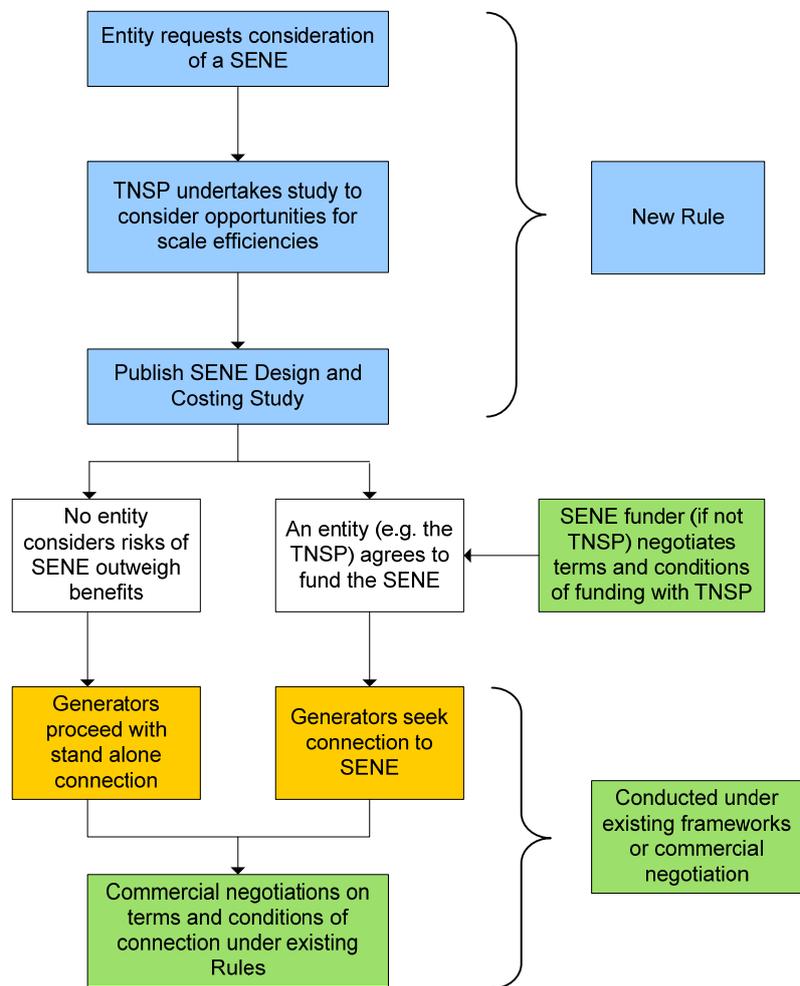
Scale efficiency gains will only be realised where transmission capacity built in anticipation of future generator connections is utilised - that is, where generation materialises and connects to a SENE as forecast. It is therefore appropriate that risk is allocated to those entities best able to assess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

The Commission considers that the final Rule provides an appropriate and proportionate response to the issues raised in the Rule change request and is more likely to contribute to the achievement of the NEO than the proposed Rule and the alternatives considered.

### Background

The Rule change request was submitted to the AEMC by the Ministerial Council on Energy<sup>1</sup> in February 2010. It arose from work previously undertaken by the AEMC as part of its Review of Energy Market Frameworks in light of Climate Change Policies.

### The Rule as Made



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<sup>1</sup> From 1 July 2011, the MCE is amalgamated into the Standing Committee on Energy and Resources (SCER).