

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

4 May 2011

Dear Sirs,

Draft Rule Determination: Scale Efficient Network Extensions – ERC0100

IPR_GDF SUEZ (IPRA) appreciates the opportunity to comment on the draft Rule determination in relation to Scale Efficient Network Extensions (SENE).

In our submission on the options paper we indicated that the proposal could not be evaluated as consistent with the National Electricity Objective per se, but might or might not satisfy it depending on how successful the administration of the process turned out to be.

We made a number of suggestions aimed at (a) improving the prospects of a successful implementation, and (b) making wider use in other contexts of some useful concepts within the SENE proposal.

However, following the draft determination we have now concluded that this issue cannot be successfully resolved until the wider questions of generator connection and access to the transmission network has been clarified. We note that aspects of the current Rules on which this draft determination relies are matters that in the context of the Transmission Framework Review (TFR) have been widely criticised as insufficiently defined and unsatisfactory.

The draft determination also invites the use of private agreements to settle matters which we believe require policy direction based on the National Electricity Objective. These include issues of access to the transmission network and the principles for network charges applying to generators. In the context of the TFR we will argue that there is a need for uniform principles to be applied throughout the NEM on these matters. We suggest that it is inappropriate to invite private agreements on these matters before the desirability of uniform principles has been considered in the TFR. This is particularly the case where a major concern with the current arrangements is the issue of the presence of monopoly power which is regarded as insufficiently regulated.

Because of these general concerns, we suggest that the Commission should not complete its consideration of this Rule change until the Transmission Frameworks Review has reached conclusions on the related matters.

The proposal made in the draft determination that generators may fund a network extension also raises particular issues for Victorian generators. Victorian generators are subject to a legislative restriction that they may not own transmission assets. The SENE proposal contemplates that a generator may (a) fund a network extension (b) receive revenue from the use of that network extension and (c) be exposed to the risk of stranding of that asset. In these circumstances the generator might be considered to be the beneficial owner, or alternatively to be utilising a ploy to evade the requirement. A Victorian generator that acted as contemplated in the draft determination could potentially be found to have contravened this restriction.

We suggest that if the Commission were intending to proceed as contemplated in the draft determination, it should first investigate whether the opportunities contemplated are actually available equally to Victorian generators as to other generators.

We also suggest that if the Commission considers that the risk entailed in a SENE construction should not be imposed on electricity customers, then it should also conclude that the risk should not be imposed on taxpayers. Imposition of the risk on taxpayers would appear to be the outcome if a SENE development were funded by a government-owned entity.

We also suggest that the Commission should consider the question of consistent treatment of all questions of scale-efficient design. This issue arises when any investment in the transmission network is contemplated. The case of a network extension is simply a more obvious example of this general issue. In the case of network development for the purposes of either reliability of supply to customers or for market benefits, the RIT-T is relevant and deals with this issue through the consideration of "option value". Where a network investment is funded by a connecting generator, or in the proposed case of a SENE, the RIT-T does not apply, but we suggest that a common approach to this common issue should be applied.

We also note that SENE development has been considered in a way which does not consider subsequent network development. We believe that network assets developed initially as a SENE might logically become part of the meshed network as a result of subsequent network construction. The arrangements for any SENE should be made in contemplation of this possibility.

The draft determination contemplates the possibility that a party funding a SENE development may become a Network Service Provider in their own right. Thus a generator could also become an NSP. Under chapter 5 of the Rules this party would then be responsible for responding to any generator seeking connection to that part of the network. Hence it could arise that one generator has extensive power to set the conditions for connection for a competing generator.

We contend that the Rules should be modified to prevent this situation, or else provide sufficient regulation to ensure the generator seeking connection that the intention of open access to the NEM network will be realised.

In summary, IPRA is of the opinion that the draft determination raises many questions that need to be addressed through the TFR, and hence that the Rule change should not proceed in the draft form, and that a Rule change on this matter should not proceed at all until these wider issues have been resolved. Alternatively, this issues raised by this Rule change proposal might be considered as part of the TFR.

If you have any questions please contact David Hoch on 0417343537.