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30 August 2006

The Chairman
Australian Energy Market Commission
PO Box H166
Australia Square, NSW 1215

Submission by email: submissions@aemc.gov.au

Dear Dr Tamblyn,

RE: - Transmission Network Replacement and Reconfiguration – 31 August 2006

The National Generators Forum (NGF) welcomes the opportunity to comment on the Transmission Network Replacement and Reconfiguration Rule proposal.

Introduction

The National Generators Forum (NGF) believes that one of the key objectives of the regulatory framework for transmission in the NEM is to drive efficient investment in both network and generation. Investment in generation is a long term commitment with returns expected for a minimum of 15 years up to 50 years or more. The more stable and certain the environment for investment in generation, and the more stable and certain the revenue stream from the market, the lower the risks for the investor and the lower the costs will be to consumers. Furthermore, the ability of a generator to provide services into the market at its maximum capability for the life of the plant ensures continuing quality, reliability and security of supply for customers.

It is for these reasons that the NGF strongly supports the Rule change proposed by Stanwell as it clearly satisfies the National Electricity Market objective.

Uncertainty in Network Access

The Rule change addresses a previously unforeseen uncertainty for generators in relation to network replacement. The NGF believes that it was not envisaged at the time of the development of the network regime, as reflected in the National Electricity Code (NEC) and later in the National Electricity Rules (NER), that Network Service Providers (NSP) would replace aged network with anything other than at the originally installed capacity. It is a reasonable expectation that when a generator invests, the capability of the network to transport power and carry other revenue earning services provided by the generator to the market would remain intact for the life of the generator. Although Stanwell's generator which is directly impacted is relatively small (88MW) it is clear to the NGF that this issue has much broader implications for the generation

sector and potentially very large cost impacts which will ultimately carry through to electricity consumers.

In Stanwell's case, the plant and the network are of a similar age, whereas a situation could arise in which a new generator could connect to an old network and in a short period of time find itself stranded in respect of some the services it provides to the market with no recourse.

The Proposed Mechanism

The NGF acknowledges that in modifying or replacing the network like-for-like replacement is not necessarily appropriate for all cases and that circumstances may change by the time network replacement occurs. The only proviso is that the impacts on affected participants be taken into account when considering a reconfiguration. The Stanwell Rule change provides for an NSP to evaluate a reconfiguration of the network which satisfies reliability requirements, and which takes into account the cost impacts on all participants including generators and customers. Under this proposal:

- NSPs are able to reconfigure the network (provided it is economic) to provide the same level of customer reliability but take into account changes in network and demand topography, technology and external constraints, without risk to its revenue.
- Generators remain whole financially and can continue to invest on the basis of reduced revenue risk.
- Customers benefit in the short term from a reconfiguration which has a lower net cost (taking into account all cost impacts) and in the long term from lower return expectations of generators.

The NGF believes that because of the obligations the Rule change places on NSPs to consult in relation to network reconfigurations the consequent improved communications are likely to lead to better investment decisions all round.

Specific issues related to the proposal

1. Compensation Costs

The NGF believes the market objective is furthered because the lower risks to generator investment will ensure lower costs to consumers that in our view will outweigh potential compensation costs.

2. Encouraging efficient generator investment

Generators are unlikely to be able to anticipate future changes to network configuration when they make their investment decisions-in fact these changes are usually so distant that the NSP is unlikely to know themselves. This means they are unable to avoid inadvertently locating at points where network configuration changes happen to occur. Thus, configuration changes are effectively an unmanageable risk for generators and the efficiency of their locational decisions are unlikely to be affected by this rule.

3. Long-term commitment of Generator to provide services requiring the relevant network

The improved communication between the generator and the TNSP proposed by the rule would have avoided the investment because the TNSP would have known of the imminent change to the generator's circumstances.

4. NSP role in negotiating compensation

NSPs already deal with generators, for example in providing contracts for network support. Also, the economic valuation proposition is similar to the complex economic assessments performed by NSP's as required by the regulatory test.

Further, the process will be improved by the dispute resolution process, the appointment of a jointly agreed independent expert, or as Stanwell suggests, by requiring the AER to develop guidelines for determining compensation. The agreed compensation will be available for scrutiny at the NSP's revenue reset.

5. Role of the connection agreement

The NGF argues that the purpose of a connection agreement in the current regime is to define the terms and conditions of the physical connection of the generator to the network at the point of connection. The Rules provide for generators to negotiate 'deep' connection; however the generator must pay for this and ultimately recover it from consumers. Practical experience amongst members of the NGF is that this is very difficult to negotiate deep connection rights in a connection agreement. Furthermore it may not result in the most economic outcome for consumers, because under a deep connection agreement the network would remain in place, it may be more economic to reconfigure the network and compensate the generator for any loss under the Stanwell Rule change proposal.

6. Definition of "Network Reconfiguration"

Finally the NGF would like to recommend that the AEMC carefully consider the definition of "network reconfiguration" to ensure that it captures what is intended by Stanwell. It needs to be broad enough to be relevant to all the likely circumstances that can arise where a generator is impacted by actions of the NSP, but not create unnecessary procedural impost on the relevant parties.

If you have any questions in relation to this proposal, please call Roger Oakley on 03 9612 2211 or 0408 512 484.

Yours faithfully

(signed)

John Boshier
Executive Director