AGL Energy Limited

AEMC SENE Public Forum

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AGL partially supports Option 4

- Option 4 is the best option suggested in the Options paper
- Signed connection agreement means investors, rather than consumers, take on the financial risk associated with projects
- Economic incremental capacity can be analysed within the RIT-T process which analyses costs and benefits of alternative options
  - Avoids introducing a 3rd & special class of transmission
  - Ensures consumers are not exposed to risks associated with a proposal not being the best option from a cost-benefit perspective;
  - Enables time to establish whether in fact a market failure actually exists (i.e. investment coordination)

Public policy merit of SENE

- There is no sound public policy reason for introduction of SENE
  - SENE is directionally at odds with more than a decade of energy market reform; a shift back to centralised planning needs to demonstrate that the costs of central planning (and there are costs) outweigh the costs of market failure
  - It is easy to demonstrate that a 300MW line is more efficient than 3 x 100MW lines, but
  - no market failure (i.e. industry coordination) has been demonstrated, and the rules that once prevented industry coordination have been remedied
  - There is no precedent in other industries (e.g. gas pipelines, high-rise buildings)
- Modelling now exists that shows that societal welfare is higher where renewables are delivered closer to the existing grid
- And the RIT-T already applies to network extensions

AGL agrees with the criteria for assessment

- Efficient investment in electricity services
  - The market is best placed to determine which investment is efficient
  - AEMO, AER and NSPs know significantly less about optimal locations for merchant investment than market participants because of real world investment constraints & private information. The NEM is a prime example of where good economic theory and the harsh realities of real-world corporate finance quite simply collide
- Efficient risk allocation mechanisms
  - The most elegant outcome of the NEM reform was shifting the cost of planning failure from customers to shareholders; SENE proposal absolves investors and NSPs of financial risk
  - SENE involves the privatisation of profits and socialisation of losses associated with a decision which customers have no control over

Energy investment expertise

- To actually bank a merchant project to financial completion, it requires the coordination and collective skills of:
  - Investment banks
  - Corporate institutional or project finance banks
  - Merchant utility energy trading desks
  - Legal, Taxation and Engineering firms
  - Power development business
- AEMO, NSPs and the AER do not have (nor should they need) this expertise

Investment hit rate indicates picking winners is impossible – that's why we deregulated

Technology	Proposed Projects	Completed Projects	Project Conversion Rate
Coal	19	7	37%
CCGT	16	6	38%
OCGT	68	22	32%
Renewables	76	27	36%
NEM	179	62	35%

Source: Simshauser (2010), Capital adequacy, ETS and investment uncertainty in the Australian power market, *Electricity Journal,* Vol 23. No.1.