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John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South, NSW 1235
Lodged online at www.aemc.gov.au

PROJECT REFERENCE CODE: EMO 0011

SUBMISSION IN RESPONSE TO *STRATEGIC PRIORITIES FOR ENERGY MARKET DEVELOPMENT 2011*

Dear Mr. Pierce,

Infigen Energy would like to thank the Australian Energy Market Commission (AEMC) for providing the opportunity to comment on their strategic priorities discussion paper.

Infigen Energy (ASX: IFN) is Australia's leading specialist renewable energy business. Infigen owns and operates five major wind farms in Australia capable of producing approximately 1,600 GWh per annum, or enough energy to supply over 200,000 homes annually. Infigen also has a significant pipeline of development opportunities in Australia, as well as owning and operating US and German wind energy businesses taking its aggregate wind energy interests across the globe to 35 wind farms with a total generation of over 6,500 GWh. Infigen Energy is the largest owner of wind energy facilities in Australia and has been shortlisted, along with our partner Suntech, for the Federal Government's Solar Flagships Program.

Infigen Energy would like to make the following comments with regards to the three strategic priorities outlined in the discussion paper.

1. A predictable regulatory and market environment for rewarding economically efficient investment

Infigen Energy agrees that a stable and predictable market environment is very important for investors in the Australian electricity market. However, much of the policy and regulatory uncertainty today is outside the control of the AEMC, so there will be some limits to what the AEMC can accomplish in this realm.

Infigen Energy also concurs with the AEMC's concerns expressed on page 36 that continued vertical integration and increasing market share of the three largest gentailers has the potential for reducing competition in the NEM, which arguably is already occurring today.

2. Building the capability and capturing the value of flexible demand

As we operate on the supply side, we may not be in the best position to offer expert commentary on different demand side strategies. However, Infigen Energy appreciates there are many potential benefits of demand side management for optimising investments in the NEM resulting in more efficient outcomes. Therefore, Infigen Energy supports the AEMC choosing this as a strategic priority.

3. Ensuring the transmission framework delivers efficient and timely investment

Infigen Energy considers that this issue is likely to be the most important of the AEMC's strategic priorities. The expanded Renewable Energy Target has significantly increased the number of new generation connection investigations, as well as actual connections, and this trend will only rise with the increasing LRET target. Added to this increased activity level will be, at some point in time, a price on carbon which will result in further increases in new low emission generator connections. We strongly concur with the statement, that,

“the ability of the transmission network to connect substantial new generation, potentially in locations remote from the existing network, in a timely and cost effective way will be crucial to meeting the Federal Government’s environmental targets at reasonable cost.” (p. 46)

Unfortunately, in our experience, NSPs are not incentivised to, and have not, connected new generation plants in a cost effective fashion. Our concern is that this trend is continuing, and possibly getting worse.

It is also stated on page 46 that monopoly networks must have the right incentives to meet the needs of generators (and consumers). In fact, there are many incentives for NSPs not to meet the needs of intending generators. The most obvious example is the incentive to “gold plate” and overprice a new connection that is paid for by the connecting generator which is then “gifted” back to the NSP as a negotiated asset. This gold plating might take the form of desirable upgrades to the NSP’s infrastructure (i.e. communications network) or it might be additional equipment to fix existing network issues in the area completely unrelated to the new generator. In both cases, the NSP imposes an additional financial burden on the generator to the NSP’s benefit. As a further incentive to undertake this practice, the gold plated assets may be added to the NSP’s regulated asset base as network changes occur which then enables the NSP to earn a regulated annual return from the asset. Therefore, the potential exists for more gold plating (at the generator’s expense) to result in a higher annual return guaranteed to the NSP.

On page 47 it is stated that,

“Investment and operational behaviour by networks has significant commercial consequences for generators...and customers”

Therefore, it is important to regulate these natural monopolies, as

"Without regulation, consumers would face the risk of networks being under-provided and over-priced." (p. 48)

Infigen Energy would add that without **effective** regulation, generators face the near certainty of over-priced grid connections which will eventually flow through to higher electricity (and Renewable Energy Certificate) prices for consumers.

Conclusion

Infigen Energy was encouraged that the issue of the limited bargaining power of generators during the connection process was recognised in the AEMC's Transmission Frameworks Review Direction Paper released last month. We look forward to working with the AEMC to discuss potential resolutions to this very important aspect of the AEMC's strategic priority. If you have any questions or would like any more information in the meantime, please feel free to contact me.

Yours Sincerely,



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