PacificHydro

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Mr John Pierce
Mr Neville Henderson
Dr Brian Spalding
Australian Energy Market Commission
PO Box A2449
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Dear Commissioners,

National Electricity Amendment (Scale Efficient Network Extensions) draft Rule 2011

Pacific Hydro appreciates the opportunity to provide comment on the recently released draft Rule for Scale Efficient Network Extensions (SENE). These comments should be taken in addition to those provided in submissions from the Green Grid Forum and the Clean Energy Council.

The need for rules to drive interest and investment in SENE was identified by the Ministerial Council on Energy (MCE) as a key step in making changes to the way network expansion (or 'extension') investment is incentivised through the regulatory instruments. Indeed, the proposal to develop a SENE rule was the main response from the MCE to the final 2009 AEMC Report, *Review of Energy Market Frameworks in Light of Climate Change Policies*.

While the AEMC proposed and consulted with industry on a number of options for SENE during 2010, the draft Rule released to the market this year is a different option altogether. We accept that the AEMC is able to develop alternate options. However, given the significance of the policy interaction between the SENE, the RET and the transmission frameworks review, Pacific Hydro considers that it is not reasonable to introduce a "new" draft Rule without further consultation.

We also consider the proposed draft Rule itself fails to meet key elements of the MCE's original request and potentially provides adverse (higher cost) outcomes for consumers. In our view the draft Rule fails to meet the National Electricity Objective and should not be pursued by the AEMC. Our detailed comments on the proposed Rule are attached at Appendix A.

We suggest that the Commission seek clarification from the MCE before proceeding any further with the SENE development.

We would like to ensure that the Commission is provided with fully formed views regarding the potential for perverse and inefficient effects that would flow from the new SENE rule. In addition to our comments attached to this letter, Pacific Hydro staff would be pleased to meet with the AEMC to provide further advice and explanation.

Yours sincerely

Lane B. Crockett

Lane Crockett
General Manager, Australia

Appendix A

1. *MCE Request*

The role of the 2009 AEMC Review of Energy Market Frameworks and the MCE's SENE rule change focussed on identifying and providing regulatory and market frameworks to underpin the transition to a cleaner energy system. Importantly, this included a necessary focus on transmission capacity expansions that will need to be incentivised in a way that is *different* to the current set of rules.

The intent of the MCE's request was to "*introduce a framework for the efficient connection of generation to distribution and transmission networks where clusters of generators in the same locations are expected to seek connection over a period of time*". This should "*introduce [sic] a new framework for planning, charging and revenue recovery of SENEs and adjustments to the process for connections [and ensure] a mechanism that minimises the risk to customers from SENE assets being under utilised by generators.*

We recognise that the MCE's request was, perplexingly, silent on load-driven network extensions.

In the MCE's terms, the role of networks in the SENE process is to include reviews, assessment and reporting on possible connection locations, capacities and indicative costs, taking into account *"any shared benefits and other implications for the shared networks"*.

In our view the MCE request clearly implies that SENEs will align with and be treated as a shared network service, developed for the long-term benefit of consumers, ensuring a regulated (rather than commercial) rate of return. To do otherwise is to mandate higher cost outcomes for future network extensions.

2. *The draft SENE Rule and the Transmission Frameworks Review*

This rule seems to have missed an opportunity to ensure a more level 'playing field' for transmission services.

The present reality is that any connection negotiation is fraught with significant risk on the generator, high cost and no guarantee of power transfer delivery due to the management of the open access regime and increased level of transmission constraint present in the system.

The SENE draft would further ensure that the rules are weighted to the advantage of the TNSP. We believe this would potentially enhance anti-competitive behaviour, further preclude new entrants to the market and – in contradiction to the NEO – deliver sub-optimal outcomes and arrangements for generators and consumers.

We would also note that while there continues to be no mention of renewable energy, or the delivery of the 20% RET, in the National Electricity Objective (NEO), the market impetus for development of SENEs will likely falter.

Notwithstanding, the role of the AEMC is to deliver market arrangements that meet the NEO and ensure competition in the market is enshrined and the most efficient (lowest) costs are delivered to consumers. This approach, in the context of the other energy market policies such as the delivery of the RET, should see the AEMC ensuring that rule changes meet and maximise benefits to consumers.

Without a change to the way network investment is guided by the Rules, renewable energy will continue to be disadvantaged in network negotiation and development.

The SENE draft rule implies that TNSPs are providing "special" services by developing scale efficient network extensions and therefore provided with a special (higher) rate of return at low risk. This makes the generator liable for the costs and most of the risk while being precluded from taking any interest in the network extension itself. This errantly implies that a single renewable generation project could carry the rates expected by a TNSP.

The Commission's failure to consider alternative cost sharing arrangements for SENEs could – perversely – condemn future expansions to the highest cost augmentation solution rather that the most efficient network extension.

In creating the rule to require the SENE studies when SENE conditions are met – establishing a project risk "trigger" for market participants – the AEMC is assuming that the yet to be completed Transmission Framework Review (TFR) will fill out the remaining detail. In relying on the TFR, we are concerned that the process will again move away from the MCE's clear directions to improve framework methods for renewable generation connection. Given the experience with the SENE we are not confident that the MCE's directions will be given sufficient weight in the TFR.