9 May 2011

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

By email: aemc@aemc.gov.au

Dear Mr Pierce

Submission: National Electricity Amendment (Scale Efficient Network Extensions) Rule 2011 ["ERC0100"]

Vestas welcomes the opportunity to make a submission in response to the AEMC's Draft Determination on National Electricity Amendment (Scale Efficient Network Extensions) Rule 2011, originally proposed by the Ministerial Council on Energy (**MCE**).

Vestas is the world's leading supplier of wind power solutions, having installed more than 40,000 wind turbines across the globe. In Australia we have been responsible for the supply of more than half of the wind energy capacity to date. Our customers are market participants in the National Electricity Market (**NEM**), hence our interest in this rule change.

Previous correspondence

In our submission to the original Scale Efficient Network Extensions (**SENE**) consultation process on 13 May 2010, we took the view that the SENE concept (in its earlier incarnation) would be unlikely to play a significant role in delivering the investment required in transmission in remote areas in time to achieve the Australian Government's legislated policy of renewable energy providing 20% of Australia's electricity needs by the year 2020.

At that time, while recognising that the 20% Renewable Energy Target (**20% RET**) was the background to the SENE proposal, we considered that the absence of any mention of renewable energy or the 20% RET in the National Electricity Objective (**NEO**) meant that SENEs were unlikely to be successful even though the MCE saw the SENE concept as a way of delivering the 20% RET in a timely fashion.

Importantly, we also stated that unless the NEO was amended to include some weight, relevance or value ascribed to the achievement of Government policies such as the 20% RET, then NEM agencies like the AEMC, AEMO and the AER have got their hands tied.

In its February 2010 rule change request, the MCE (on page 4 onwards) set out the reasons for its own view that the SENE proposal would be likely to contribute to the achievement of the NEO. While Vestas supports the SENE proposal at a conceptual level, we would respectfully disagree with this assessment by the MCE.

The relatively poor track record of the NEM in attracting timely investment in new transmission projects over the past 15 years tends to demonstrate how difficult it is for such projects to show how they contribute to the achievement of the NEO, and hence meet the requirements of related hurdles such as the Regulatory Investment Test for Transmission (**RIT-T**).

In all of the SENE options canvassed by the MCE and the AEMC since February 2010 we have not seen anything that we consider would be commercially successful or viable on a large scale. This is against the background of a national policy to increase the percentage of Australia's electricity supply from renewable energy from around 7.5% today to 20% by the year 2020 – an ambitious target in anyone's language.

With so many of Australia's great renewable energy resources located far from the transmission system, it is difficult to see how this target will be met without more extensive policy and regulatory change.

Draft Rule Determination

With respect to the Draft Rule Determination, our comments focus on two main areas of concern: with the process, and with the outcome.

<u>Change in direction</u>

The Draft Rule Determination appears to be out of alignment with the original SENE proposal from the MCE.

The Draft Rule Determination rejects the key design feature contained in the previous 5 options for the SENE concept; namely, the funding of SENEs by customers in various circumstances.

Aside from the substantial divergence from the 5 options contained in the Options Paper and the waste of time and money inherent in such a decision-making process, the outcome of the Draft Rule Determination appears to be a snub to the MCE.

The MCE was clear and explicit in its direction that it was appropriate for customers to some of the costs of SENEs, yet the AEMC has rejected this and instead placed that burden upon market participants.

This is not acceptable. The MCE is the primary policy-making body in the NEM, and if the AEMC considers that an MCE rule change request cannot be accommodated then it should communicate this to the MCE and halt the rule change process, rather than radically change a fundamental aspect of the proposed rule and proceed with the rule change process.

Commercially unattractive

Based on a preliminary reading of the draft rule, as well as discussion with market participants in the wake of the draft determination, Vestas takes the view that the draft SENE rule change is unlikely ever to be used by aspiring generators in the NEM.

The revised draft places more commercial risk than ever before on generators, while also making the SENE process relatively commercially unattractive for Transmission Network Service Providers (**TNSP**s).

The draft SENE rule change has created a complicated and lengthy process which would not result in timely investment in new transmission lines, and does not adequately address the high cost for aspiring developers of new renewable energy generation facilities to connect to the NEM.

Next steps

As noted above, our view is that the rule change process should be halted and the matter referred back to the MCE. While this is not something the AEMC would normally do, the fact that the proposer of the rule change is also the primary policy-making body for the NEM is a relevant one. It does not seem appropriate or useful for the AEMC to reject a key design feature of the MCE's proposed rule change yet proceed with the rule change process regardless of this.

As mentioned above, the MCE and the AEMC appear to be in dispute as to whether the SENE proposal would contribute to the achievement of the NEO. Given that the NEO is itself a product of MCE policy-making determination, it seems appropriate to halt the rule-making process and seek further clarity from the MCE.

Vestas staff would be pleased to meet with AEMC staff to discuss our submission and answer any other questions they may have. Please contact the writer on (03) 8698 7300 to do so.

Yours sincerely,

[signed]

Ken McAlpine
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