



**Government
of South Australia**

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Mr John Pierce
Chairman
Australian Energy Market Commission
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Dear Mr Pierce

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Scale Efficient Network Extensions (SENE) draft Rule determination.

The South Australian Government is disappointed that the AEMC's draft Rule determination to make a more preferable Rule does not overcome the existing connection frameworks weakness identified by the AEMC in its own 2008 Review of Energy Market Frameworks in Light of Climate Change Policies. In particular, the draft Rule does not provide Transmission Network Service Providers (TNSPs) with any incentive to build network connections to an efficient scale to accommodate anticipated future connections.

In the draft Rule determination, the AEMC stated that potential generators have strong incentives to cooperate with each other as a stand alone connection to the existing network is likely to be more expensive than the shared costs of connecting to a SENE. However, it was identified in stakeholder submissions that under the current framework differing project timing is a challenge for coordinating connections.

The draft Rule therefore assumes that where a Design and Costing Study reveals the potential for efficiency gains from the coordinated connection of new generators in a particular area, an investor will be forthcoming to fund the SENE. In an environment where project finance is difficult to secure, it is disappointing that the AEMC did not test this assumption with stakeholders.

A significant consideration for the AEMC in making the draft Rule determination appears to be that market participants are best able and willing to manage risk rather than consumers. Undue emphasis appears to have been placed on this rationale considering that in relation to shared network decisions customers already assume risk of forecast demand failing to materialise in the expected timeframes.

The South Australian Government agrees that consumers should not bear the full risk of SENE. However, the AEMC draft Rule determination disregards the opportunity to develop a framework which would share the risk between market participants and consumers, and introduces a Rule that is unlikely to ever result in the construction of a SENE.

Accordingly, the South Australian Government continues to advocate for a SENE Rule Change in accordance with its submission to the Commission in response to the Options Paper. In particular, the SENE Rule Change should balance risk between market participants and consumers by including a minimum threshold level of firm commitment towards capital cost from generators and a requirement for incremental capacity costs to be met by customers until such time that all generators materialise.

In the absence of the AEMC making a SENE Rule which will result in the construction of a SENE, the South Australian Government considers it essential that the Commission consider in the Transmission Framework Review whether the existing market framework incentivises and facilitates efficient network extensions where the transmission network is privately owned and operated.

Should you wish to discuss this submission please contact Mr Vince Duffy, Executive Director of the Energy Division of the Department for Transport, Energy and Infrastructure on (08) 8204 1724.

Yours sincerely

A handwritten signature in black ink that reads "Michael O'Brien". The signature is written in a cursive, flowing style.

Hon Michael O'Brien MP
MINISTER FOR ENERGY