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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
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Dear Mr Pierce

National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010

Introduction

The National Generators Forum (NGF) welcomes the opportunity to make a further submission in response to the Ministerial Council on Energy's (MCE) rule change proposal, entitled National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010 (the Rule Change).

The purpose of this submission is to respond to the range of matters raised in the Options Paper prepared by the Australian Energy Market Commission (AEMC).

Our comment on the Options Paper is informed by: our experience as National Electricity Market (NEM) participants with an ongoing interest in the development and governance of the NEM; our direct involvement in the working group formed to consider issues of remote connection as part of the Review of Energy Market Frameworks in light of Climate Change Policies (Market Frameworks Review); and as potential users of any future Scale Efficient Network Extensions (SENEs).

While this submission raises a number of issues, we continue to support the AEMC's ongoing work focusing on the effectiveness of transmission related services, and at a general level support improved approaches to facilitating transmission investment to meet the needs of customers, existing generators and investors.

More broadly, while the AEMC's consultation has been very useful, we note that many of the issues raised by the NGF are yet to be resolved.

Background

Organisation Information

The NGF directly represents the major power generators in the NEM. The installed capacity of the members is 44,384 MW as of 2008, with an asset value of over \$40 billion. Annual sales are over 180,000 GWh, valued at around \$7 billion. This represents over 95% of the total Australian market.

NGF members are publicly and privately owned businesses which generate electricity for sale and trade under the National Electricity Rules (the rules), and who have registered generating capacity of at least 300 MW. The Chief Executives and senior managers of these businesses form the Board of National Generators Forum Ltd.

The NGF aims to be a respected industry body recognised for excellence in influencing the development of Australia's energy markets.

Previous Submission to the AEMC Consultation Paper

This submission should be read in conjunction with our previous submission to the Consultation Paper.

In that submission, we noted that SENEs are conceptually appealing as they are intended to overcome lumpiness concerns, realise economies of scale to deliver benefits to customers, and could assist in meeting the Renewable Energy Target (RET) in a more timely fashion. However, we also indicated that the design principles of a SENE must not: distort locational signals; subsidise inefficient generation projects; and disadvantage non-SENE connected potential projects.

Critically, we noted that there has been no assessment of the quantum of potential benefits associated with SENEs and that the lack of detail and analysis to support the proposal makes it difficult to assess its economic value, independently, and in the context of the wider transmission framework. Hence, we held the view that without this analysis any claim by the AEMC of an overall efficiency improvement from SENEs is likely to be over-stated and that further analysis is required to determine the merits of the proposal, including whether or not the complexity and costs of design and implementation outweigh the potential net benefits to the market as a whole.

Discussion

Are SENEs necessary?

The NGF remains unconvinced that SENEs are required to overcome the concerns identified by the MCE in proposing the Rule Change and again highlights the point that the quantifiable benefits and cost savings that are expected to arise from a SENE connection remain unclear in the context of a framework which is already technologically neutral, already provides scope for groups of generators to realise economies of scale benefits, and should not support inefficient remote entry as it would be inconsistent with the National Electricity Objective (NEO).

The NGF shares the concerns enunciated by Macquarie Generation, Delta Electricity and Eraring Energy in their submission to the Consultation Paper (in the context of the Review of Energy Market Frameworks in light of Climate Change Policies which proposed SENEs):

. . . at no stage did the AEMC attempt to identify the number of SENE projects that may qualify under the proposed regulatory framework. Nor did the AEMC analyse the extent of possible economies of scale savings from these projects as a way of giving some indication of the possible benefits.¹

The AEMC indicates the two main inefficiencies of the current framework are the: inefficient duplication of network assets, where connections continue to be negotiated on a bilateral basis; and inefficient delays in connection or inefficient location decisions (from a market perspective) as a result of the first mover disadvantage.

Addressing these inefficiencies could facilitate more efficient transmission investment. However, without evidence or detailed examples, it remains unclear how the SENE may access these efficiency gains that outweigh any associated costs.

In addition, it is important to promote the NEO and as such the proposal must be consistent with the principles underlying the NEM. For instance, the AEMC needs to demonstrate that the proposal does not conflict with the technology neutral principle in the National Electricity Rules (NER) or subsidise otherwise inefficient investment decisions.

While the identified inefficiencies are intuitive, as they relate to minimising transmission investment costs, the ongoing absence of detailed examples or an appropriate cost benefit analysis means the issue has not been considered from a wider market perspective in which context SENEs may be inappropriate. As discussed at the SENE Public Forum it is questionable to whether, from a first principles perspective, the SENEs proposal is consistent with the principles underpinning the reforms which led to the development of the NEM in the first instance.

It is critical that the AEMC undertakes some quantitative analysis in order to facilitate an informed debate on the merits of the SENE proposal. We encourage the AEMC to progress this work, which should include consideration of how the SENE aligns with the existing NEM design principles.

SENEs sit uncomfortably with the NEO

The NGF has some concerns with the AEMC statement that the Rules are to provide ‘a robust framework to allow the goals of various government policies and programmes, such as the RET, to be achieved in an efficient manner.’² The AEMC went on to state that ‘it is not our role to ensure the Renewable Energy Target is met, but to ensure any behavioural changes as a result of the RET are accommodated in the most efficient way.’³

These comments suggest the NER can be revised to facilitate behavioural change to meet broader social objectives that do not concern price and supply but about ensuring low carbon dioxide emissions technology or other policies are progressed. We believe it remains unclear to what extent this perspective is consistent with the NEO against which all rule changes should be assessed.

We believe this issue, which is broader than the SENE Rule Change, requires further explanation by the AEMC to assist market participants moving forward.

Broader connection issues beyond those addressed by the SENE

While the NGF understands the SENE proposal is seeking to promote efficient connection in light of the RET, there are other major impediments to connection for renewable and remote generation.

¹ Macquarie Generation, Delta Electricity and Eraring Energy, Consultation Paper submission, p.1.

² AEMC (2010), SENEs Options Paper, p.9.

³ AEMC (2010), SENEs Options Paper, p.16.

As set out in Appendix 1 of the NGF submission to the Transmission Frameworks Review Scoping Paper, the NGF identifies a number of substantive problems with the existing connection framework. These go beyond those that the Rule Change is said to address. The majority of the problems stem from the lack of clarity in the NER around connection arrangements, which can result in an inconsistent application of the NER provisions by TNSPs. Consequently, these connection negotiations can be time consuming and costly. The Rule Change is unlikely to address these broader issues but may require their resolution in order to operate effectively.

The NGF can also identify numerous examples of “non-traditional” generation investment connections under the current connection arrangements. In these cases, it has been the challenges with the broader connection framework that have been the source of problems as opposed to those identified by the SENE. Given renewable generation is currently connecting to the network; the NGF considers the AEMC needs to be quantify the shortfall of these arrangements.

Would generators or other parties be willing to finance additional capacity beyond their own requirements?

The AEMC in the Options Paper makes the following point:

... generators are unlikely to be willing to finance additional capacity beyond their own requirements even where building additional capacity is likely to result in lower average costs. In addition to bearing the risk of future generators not materialising, a generator would also risk under-recovery of costs even where generation materialises. This is because there is some ambiguity in the Rules regarding whether an asset funded by a generator may become subject to economic regulation, for example, if load seeks to connect. Similarly, it is not clear whether the generator would be entitled to any compensation if this occurred. Further, there is little commercial incentive for generators to build spare capacity to facilitate a competitor’s connection.

The NGF provided a detailed response to the issue of merchant transmission investment which appears not to have been considered by the AEMC in developing the Options Paper and in making the comments above. Additionally, the above statement is indicative that other more direct concerns regarding investment incentives and compensation, if resolved, could better facilitate commercial outcomes instead of pursuing a regulatory driven SENE framework.

The NGF’s previous comments on merchant generation are revisited below:

- The AEMC should be seeking to improve the scope for merchant transmission investment by generators and investors by improving investment certainty and recognising property rights. We believe this is a logical outcome, which can be facilitated within the NEM, and does not conflict with the open access regime.
- Where an individual investor chooses to build a SENE type asset, that investor or generator should be provided with the entirety of the capacity right over that asset and be permitted to offer connection to other generators through private agreement or sale.
- One of the major failings, in our view, of the transmission system is the inability of generators or investors to make private investments in transmission assets with any certainty that the value of that investment will not be captured by other beneficiaries or directly by new connections. As it relates to SENE, we recommend a system operate alongside any regulated SENE process (or in its absence) whereby any generator constructing a SENE type asset has its private property rights recognised in the form of full ownership of all available capacity rights which can be sold to a generator wishing to connect in that location in the future.

- The provision of property rights over merchant transmission has the potential to encourage greater investment in transmission by private investors; however, there has been a general reluctance by the AEMC to consider this issue.

Concerns with the RIT-T

Achieving the benefits of economies of scale in transmission connection and extension assets by the application of the RIT-T or a 'SENE economic test' has the potential to distort the decentralised decision making process by creating delays to investment and as a consequence increased costs.

The application of the RIT-T which has the potential to impact competitive market outcomes has historically been in evaluating the least cost approach to a particular interconnector upgrade. In the case of the NSW to Victoria interconnector upgrade (where at the time the Regulatory Test was conducted by NEMMCO) where there was both a regulated solution (proposed by Transgrid) and a market based solution (an MNSP proposed by Transenergie) i.e. competing alternative solutions, the application of the Regulatory Test was difficult and contentious and ultimately resulted in the case being resolved through an expensive dispute resolution process, involving all three parties.

In the above case the scope of potential options was limited to a particular network augmentation and there were only two interested parties.

As identified in the NERA Economic Consulting report for Grid Australia⁴ it will be difficult to limit the scope and number of the credible options to be considered under an SENE analysis. As the RIT-T will need to consider market wide impacts there is likely to be a large number of affected stakeholders, with competing projects, who could press for consideration of credible network extensions for renewable generation in other areas of the NEM.

Further the NERA Economic Consulting report⁵ identifies the complexity of the issues in applying the RIT-T or a SENE test.

Application of the RIT-T or a SENE test is problematic because it:

- requires the establishment of a base case of no extension which will be of key importance to the analysis (will the base case be conventional generation of renewable generation elsewhere, and what jurisdictional environmental policies will apply?);
- is heavily dependent on assumptions made by TNSPs regarding:
 - future market development scenarios; and
 - forecasts of wind and other generation developments to be accommodated on the SENE and the relative efficiency of wind generation in different locations where wind generation displaces other wind generation.
- may require additional investment in conventional generation as back-up;
- depends on wind generation actually being dispatched to displace generation elsewhere, which means the RIT-T would need to consider augmentations to the shared network;
- the benefits from an extension to connect wind generation would primarily be:
 - fuel cost savings from displacing existing conventional generation which would depend on their location and relative fuel costs and whether or not a carbon price is to be applied as well as other jurisdictional environmental or efficiency policies;
 - deferment or displacement of other generation investment.
- will be difficult to establishment a limit to the number of alternative credible options to be considered.

⁴ Case Study of the Network Extension – Public Report for Grid Australia; NERA Economic Consulting - page 14.

⁵ Ibid Section 3

Establishment of all the modelling parameters and alternative options is likely to be very contentious and time consuming and therefore take considerably longer than a standard RIT-T test. There is a significant risk that the evaluation would not be completed in a timely manner and/or may need to be resolved through dispute resolution.

The NERA report also identifies that the application of the RIT-T only addresses the issue of right sizing the network to the extent that the assumptions made reflect the full extent of the possible future generation development in the particular area. This is the normal modelling problem i.e. rubbish in, rubbish out.

The RIT-T in itself does not assist in determining the efficient size of a network extension and if all network extensions are subject to the RIT-T it is in reality the application of centralised planning to a competitive market.

Use of an alternative economic test

Alternatively, an economic test could be used instead of the RIT-T assessment which would only consider the merits of the proposed SENE investment; it would not consider the merits of any other augmentation to the network or require the involved RIT-T consultation process prescribed in the NER. In this regard, it is an easier threshold to pass than the RIT-T.

However, similar issues would arise with any SENE economic test as with the RIT-T; however, it may be engineered to have lower thresholds. This again suggests an attempt to centrally plan a competitive market under the guise of an economic efficiency principle that in this instance is largely unsubstantiated.

Furthermore, failing to consider the impacts on the shared network, and the viability of alternative proposals across the NEM, could inappropriately justify oversized assets. This clearly raises ongoing issues the NGF has with the use of the economic tests including the RIT-T as a proposed tool to support competition and benefit generators in general.

Access provisions

The AEMC repeatedly assumes that generators are able to negotiate with network service providers to negotiate a “higher level of service”. As we set out in our Transmission Frameworks Review submission, the shortfalls in the current connection frameworks (under which these negotiations are supposed to occur) limit the ability for these negotiations to occur.

We understand that in some jurisdictions generators are not able to have a recognised transfer capacity within their connection and use of system documentation. In other instances, where generators do have defined transfer capacities in their connection documentation it has not been feasible to attempt to implement clause 5.4A type arrangements.

In many regards, these outcomes are a product of the transmission framework in which parties operate and it is for these reasons these issues should be considered as part of the broader Transmission Frameworks Review. Hence, reliance on untested assumptions about how access “can be negotiated” to progress the SENE proposal is not appropriate going forward and we encourage the AEMC to revisit these issues as part of the Transmission Frameworks Review.

Concerning SENE options, the NGF supports an access arrangement and compensation scheme applying to the SENE which is referenced to the individual generator's capacity right and not an administrative proxy. Such a scheme would compensate generators with full access that were backed off and penalise generators with partial access that generated in excess of their entitlement and caused congestion. The proposed scheme does not do this. As such, the NGF welcomes an opportunity to discuss in further details how such a scheme could be progressed.

Analysis of options outline by the AEMC

It is not clear why the AEMC limited itself to the mix of options contained in the Options Paper. While the NGF agrees that it is necessary to have a limit on the number of options, we do not believe it was necessary to exclude features permitted in one option from other options. Where appropriate the NGF indicates how the options discussed below could be made more flexible. In that regard, we have presented an alternative NGF option.

Option 1

Summary of NGF position on Option 1

Not supported.

Option 1 is: too regulatory driven with limited commercial information; stranded assets risk remains excessive; distorts locational signals; and inappropriately relies on the integrity of assumptions that can only be inaccurate to varying degrees.

The NGF would be concerned if Option 1 is adopted.

Trigger for considering a SENE

The NGF does not support the over-engineered regulatory driven approach to SENE site identification. While we suggest that AEMO through the NTNDP can still outline areas where it believes potential clusters may evolve or be worthy of investigation for information purposes, we do not believe AEMO identification of formally labelled 'SENE zones' is warranted or best practice.

AEMO, as the market operator, does not have, and should not be required to possess, the same granularity of commercial expertise and knowledge as market participants, individually or cumulatively. Furthermore, there is no readily available methodology, nor should there be, of transferring the sum total of individual market participant's commercial considerations to AEMO to undertake such a central planning process, and therefore we believe any process which requires AEMO to have perfect foresight with regards to potential SENE locations that may interest market participants is fundamentally flawed.

As stated, we do believe AEMO plays a valuable information gathering and dissemination role and AEMO involvement in SENE should be limited to this existing format. To require AEMO to select zones as pre-condition for qualification would result in either identification of every possible site imaginable, an exercise of questionable value, or to leave out sites investors, for a range of reasons, may believe are appropriate. Either outcome undermines AEMO's role as the trigger for considering a SENE.

Investment Test

We are not convinced that the existence of only one generator, covering 25 per cent of capital costs, agreeing to connect is cause enough for customers to fund a SENE.

The construction of a SENE is a move away from current arrangements for funding connection assets and extensions from the shared network. Therefore, it is our view that it is only worth realising economies of scale benefits at the customers' expense where: (a) individual generators have shown a strong desire to connect in a designated SENE location and (b) where the over build represents a realistically acceptable risk to customers.

We do not believe Option 1 places enough emphasis on the market's response to a proposed SENE. As such we believe stranded asset risk will not be appropriately mitigated under Option 1.

More broadly, we question the logic of pursuing a central planning type methodology, which excludes the RIT-T, where a significant portion of the initial available capacity is not based on actual firm interest.

Cost allocation and charging methodology

The NGF:

- does not support the introduction of variable charges based on five-yearly reviews. We prefer that charges are as stable as possible to facilitate investment certainty;
- does not support the use of average costs charges for generators connecting to a SENE;
- supports the use of stand-alone costs for generators connecting to a SENE (stand-alone costs representing the generators' best alternative to connecting to a SENE in that location);
- supports the difference between the stand-alone cost and the average cost being rebated to connected generators once a SENE is fully subscribed (either in terms of capacity or full cost recovery).

The use of average charges is only appropriate in circumstances where a SENE-type asset is fully subscribed, not reliant on future connection forecasts, and therefore is not distorting locational decisions (i.e. as the location has already been selected the average charge is a component of the absolute cost of the new transmission and therefore reflects the absolute cost).

The payment of stand-alone costs (either upfront or annualised), with or without the use of rebates once a SENE is fully subscribed, abrogates the need for NSPs to set variable charges based on five-yearly reviews, increases investment certainty, and directs savings to the party which bears the risk (customers) until such time as full cost recovery occurs.

As outlined by participants in the SENE Public Forum, we believe insufficient attention has been given to the issues of using average costs to subsidise SENEs connections (given it is not realistic to assume assumptions will be correct) in the Options Paper.

Access provisions

We support the capacity rights proposal so that: once the capacity of the SENE is fully utilised subsequent connections can choose to fund an augmentation to the SENE to increase the SENEs power transfer capability; or, where a generator chooses not to fund an augmentation it will be exposed to compensation payments. We believe the exposure to compensation payments could be minimised by electing to be backed off or funding a partial augmentation where such an augmentation is physically possible.

While the NGF supports the use of the compensation scheme we are not comfortable with the use of an AER calculation to determine the rate of compensation. We do not believe the AEMC has appropriately justified why the AER should be given this role, and question the value in extending the scope of AER's regulatory powers into this area. We are also concerned the model does not appropriately incentivise participant behaviour to not constrain other parties.

The NGF supports an access arrangement and compensation scheme which is referenced to the individual generator's capacity right and not an administrative proxy. Such a scheme would compensate generators with full access that were backed off and penalise generators with partial access that generated in excess of their entitlement and caused congestion. The proposed scheme does not do this. As such, the NGF welcomes an opportunity to discuss in further details how such a scheme could be progressed.

The NGF considers that the use of private agreements between parties on a SENE is another appropriate mechanism for determining compensation and managing access.

Regulatory Oversight

We do believe the role of AEMO and NSPs combined, with a compulsory review role for the AER is appropriate for Option 1. Nevertheless, the stranded asset risk remains overly high.

Option 2

Summary of NGF position on Option 2

Not supported.

Option 2 is: too regulatory driven with limited commercial information; stranded assets risk remains excessive; distorts locational signals; and inappropriately relies on the integrity of assumptions that can only be inaccurate to varying degrees. The access provisions are also lacking.

The NGF would be concerned if Option 2 were adopted but considers its investment test an improvement on Option 1.

Trigger for considering a SENE

Not supported, as per Option 1.

Investment Test

We are not convinced that the existence of only one generator, covering 25 per cent of capital costs, agreeing to connect is cause enough for customers to fund a SENE.

The construction of a SENE is a move away from current arrangements for funding connection assets and extensions from the shared network. Therefore, it is our view that it is only worth realising economies of scale benefits at the customers' expense where: (a) individual generators have shown a strong desire to connect in a designated SENE location and (b) where the over build represents a realistically acceptable risk to customers.

However, unlike Option 1 we do believe an explicit economic test may be more appropriate than reliance on NSP planning assumptions. We believe stranded asset risk remains high under Option 2.

More broadly, we question the logic of pursuing a central planning type methodology, which excludes the RIT-T, where a significant portion of the initial available capacity is not based on actual firm interest.

Cost allocation and charging methodology

Not supported, as per Option 1.

Access provisions

It is not clear why Option 2 does not retain the access provisions outlined in the original rule change proposal.

Should the AEMC be minded to progress with Option 2 we believe it should retain the access provisions outlined in Option 1.

Regulatory Oversight

Appropriate for this option.

Option 3

Summary of NGF position on Option 3

We believe Option 3, based on the Grid Australia proposal, is a logical improvement to the original rule change; however, we do not explicitly support Option 3.

Trigger for considering a SENE

We support a generator connection enquiry as the preferred trigger for considering a SENE in any given location. Such a trigger is a more appropriate market driven arrangement which does not rely on regulatory assumptions and forecasting and also reduces framework complexity.

We also support an opt-in arrangement whereby a generator has the right to precede without a SENE assessment taking place where it is considered such action would be more time effective given its business interests.

Investment Test

The NGF supports the investment test under Option 3 of a signed connection agreement as the appropriate investment test with the RIT-T applied to the incremental capacity.

However, there are a number of considerations in using the RIT-T as discussed previously.

Cost allocation and charging methodology

The NGF supports the use of stand-alone costs for generators connecting to a SENE with the difference between the stand-alone cost and the average cost being rebated to connected generators once a SENE is fully subscribed.

Therefore, for Option 3 we support the use of stand-alone costs for all connecting generators until spare capacity is fully utilised. We do not therefore support customers continuing to be responsible for the incremental charge. Nor do we support the use of average charges prior to the point of the SENE being fully subscribed.

The reasons for this are that exposure to stand-alone costs best enable generators to trade-off locations across the NEM, and therefore does not induce distortions or subsidies and introduce more discipline over SENE connection expectations. The use of average charges is only appropriate in circumstances where a SENE-type asset is fully subscribed, not reliant on future connection forecasts, and therefore is not distorting locational decisions.

Secondly, it reduces the cost exposure for customers both in regards to quantum of financing and duration. As assumptions needs to be based on the expectation that future private benefits will exceed private costs and therefore justify stand-alone costs up until the time of full subscription at which time a reimbursement may be appropriate.

We do note that there is a tension between the use of the RIT-T for this purpose and the charging of stand-alone costs. In the absence of a generator enquiry triggering consideration of a SENE, a SENE type asset that of itself passed the RIT-T without any firm connections would allow for future connections without any additional charges. Nevertheless, in the circumstance where the first generator is charged stand-alone costs a consistent approach is required that does not create a first-mover disadvantage.

It could be argued that instead of applying the RIT-T in its existing form, a less consultative RIT-T economic test or similar that only applies to the value of the optionality attached to building the asset in such a way that provided for future upgrades and additional connections should be undertaken in place of the current RIT-T process. While the NGF does not explicitly support such an outcome it suggests the application of the RIT-T requires further consideration.

Access provisions

We support access arrangements as per Option 1.

Regulatory Oversight

We support applications of the RIT-T or any alternative economic test being revised by the AER with AEMO reviewing forecasts where an NSP will be accessing customer funding.

Option 4

Summary of NGF position on Option 4

Preferred option, of the five options presented by the AEMC.

Trigger for considering a SENE

Supported, as per Option 3.

Investment Test

Supported, as per Option 3.

Cost allocation and charging methodology

The NGF supports the use of stand-alone costs for generators connecting to a SENE with the difference between the stand-alone cost and the average cost being rebated to connected generators once a SENE is fully subscribed.

Therefore, for Option 4 we support the use of stand-alone costs for all connecting generators until spare capacity is fully utilised. Unlike Option 3, we prefer customers' portion of the charge reducing as new generators connect. Nevertheless, we only support the use of average charges prior to the point of the SENE being fully subscribed as per Option 3.

Access provisions

We support access arrangements as per Option 1.

Regulatory Oversight

We support applications of the RIT-T or any alternative economic test being revised by the AER with AEMO reviewing forecasts where an NSP will be accessing customer funding.

Option 5

Summary of NGF position on Option 5

Not supported.

This option creates a number of concerns, as well as introducing a charging regime which is contrary to the current intentions of the Rules.

Trigger for considering a SENE

We support a generator connection enquiry as the preferred trigger for considering a SENE in any given location. Such a trigger is a more appropriate market driven arrangement which does not rely on regulatory assumptions and forecasting and also reduces framework complexity.

We also support an opt-in arrangement whereby a generator has the right to proceed without a SENE assessment taking place where it is considered such action would be more time effective.

However, for Option 5 given the entire investment is the subject of a RIT-T application we query whether a generator connection enquiry is actually required under this model.

Investment Test

We query the logic of applying the RIT-T to the entire asset in a manner that is distinct from the existing transmission framework.

Cost allocation and charging methodology

The NGF does not support the use of generator charges

Access provisions

We support access arrangements as per Option 1.

Regulatory Oversight

We support applications of the RIT-T or any alternative economic test being revised by the AER with AEMO reviewing forecasts where an NSP will be accessing customer funding.

Alternative NGF Option

The NGF remains unconvinced about the need for SENEs, nevertheless, given the widespread interest in SENEs, and an absence of interest in tackling the more practical impediments to connection, we have a preference for a revised Option 4.

<i>Trigger for considering a SENE</i>	<i>Investment Test</i>	<i>Cost allocation and charging methodology</i>	<i>Access provisions</i>	<i>Regulatory Oversight</i>
A generator connection inquiry.	Signed connection agreement with first generator, RIT-T or similar applied to incremental capacity.	Each generator pays stand-alone cost until SENE fully subscribed. Charge can be annualised or paid upfront. Possible reimbursement of relevant costs once fully subscribed. Customers fund shortfall until fully subscribed.	Mandated compensation arrangements on the SENE commensurate with stand-alone cost entitlement, with provisions for private agreements and compensation. Role of AER not supported.	AER power of veto over RIT-T application, AEMO reviews NSP forecasts.

Under this model:

- SENE triggered by a generator connection inquiry. The NGF believe it would make more sense for the market to trigger a SENE, compared with the centrally planned alternatives embedded in Option 1 & 2.
- There would need to be a signed connection agreement with the first generator to start the process. The NSP (based on the inquiries it receives) would decide on whether to consider a higher capacity extension beyond the capacity reflected in the signed connection agreement to accommodate the connection of more generators in the same area
- The RIT-T would be applied to the capacity beyond the requirements of a first connecting generator. The NGF supports the application of the RIT-T, as in Option 3, to the capacity beyond the requirements of the first connecting generator.
- The initial generator would be required to pay a charge based on its initial stand alone cost. This would be rebated over time as other generators connect.
- Customers would be required to fund the incremental capacity above that required to connect the first generator i.e. the portion of the SENE that passed the RIT-T. This would be rebated once the SENE is fully subscribed.

- As each new generator connects, they would be required to meet their stand alone costs until such time as the SENE is fully subscribed. The profile of rebates to both generators and customers would make the cost recovery arrangements more complex than some of the other alternatives. However, if all generators connect as anticipated, generators would pay average costs for the use for the SENE whereas if generators do not connect as forecast then they would not have accessed a subsidy.
- Separate from the shared network the SENE would operate with recognised financial rights. Generators would be entitled to compensation if they were constrained off below their agreed transfer capability (which is set out in their connection offer) and required to pay other generators on the SENE compensation if they were to generate in excess of their agreed power transfer capability. This would likely be most relevant once a SENE is oversubscribed. The NGF is interested in developing this proposal with the AEMC and does not support the role for the AER as conceived for Option 1.
- AER power of veto over RIT-T application, AEMO reviews NSP forecasts.

Conclusions

The NGF remains unconvinced that SENEs are required and continues to support merchant models as a complement to SENEs or in their absence.

Nevertheless, our clear preference should the AEMC be minded to support SENEs is for a revised Option 4 which is market led, minimises distortions and subsidies, resolves the first mover disadvantage, and minimises stranded asset risk.

The NGF is pleased to continue to provide advice to the AEMC in the consideration of these issues. Please do not hesitate to contact Mr Jamie Lowe, telephone (03) 9612 2236, or myself, telephone (02) 6198 3491, if you have queries in relation to this submission.

Yours sincerely



Malcolm Roberts
Executive Director