Adelaide, South Australia - October 20, 2010

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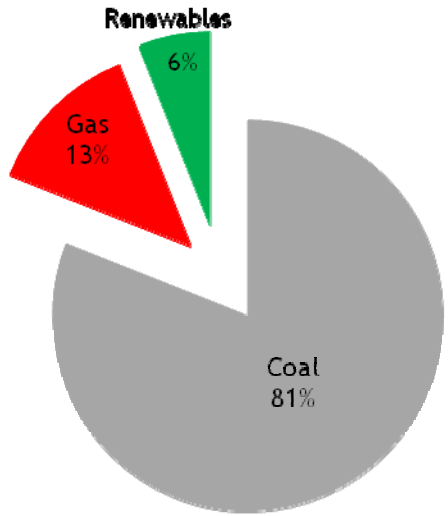
SENE Public Forum

The impetus toward a low carbon economy is an enduring trend …

- That will continue to drive outcomes in energy markets
- Recent policy developments indicate that the achievement of carbon abatement objectives will be a priority for the foreseeable future.
- Australia remains committed to reducing emissions to 5% below 2000 levels by 2020
- In addition to a carbon price, the efficient absorption of lower emitting fuel sources (particularly renewables) into the generation mix is vital
- The 20% RET is likely to require up to an additional 9,000 MW of renewable generation by 2020
- This represents a significant change in the NEM which to date has primarily facilitated the entry of traditional forms of generation (e.g. coal, gas)

Australian electricity generation 2007-08



Source: esaa and CEC

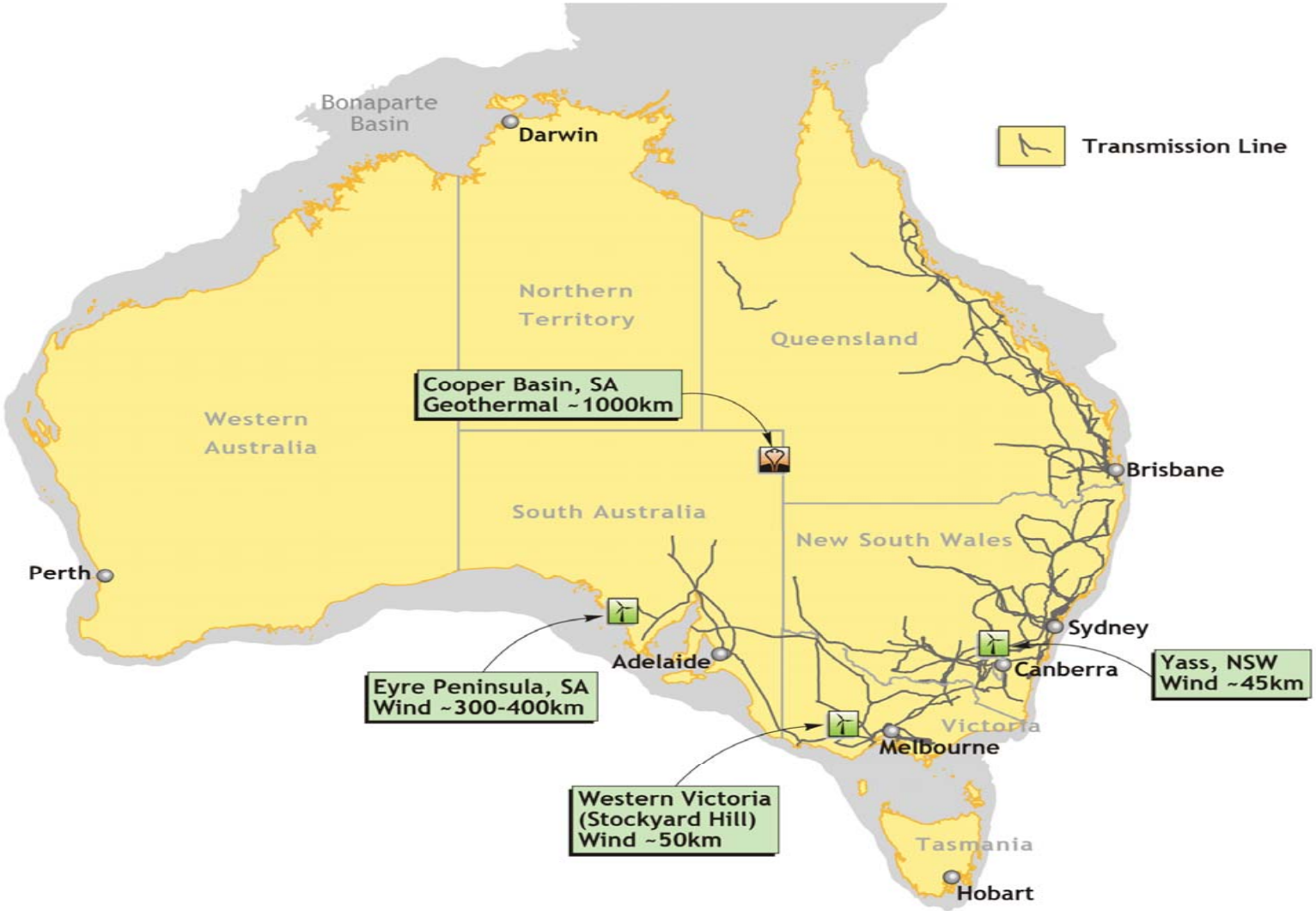
… Energy market frameworks will need to adapt to the changing composition of generation sources

Many of the best renewables (in terms of quality/ scale) are located in remote areas …

Capacity factors have a direct impact on cost

- Given the relatively high capacity factors and size of these resources if climate change policy objectives are to be met at **least cost,** investors should have the ability to bring them to market where efficient
- Trade – off between the cost of remote build (e.g. higher transmission) and sites closer to the grid will have to be made; for e.g. in some cases lower capacity factors and increasing community activism associated with the latter imposes added costs
- Current framework (initially put in place to connect generators closer to the grid), does not effectively allow for the above comparison as it does not adequately facilitate remote connections

Origin has a diverse renewable portfolio …



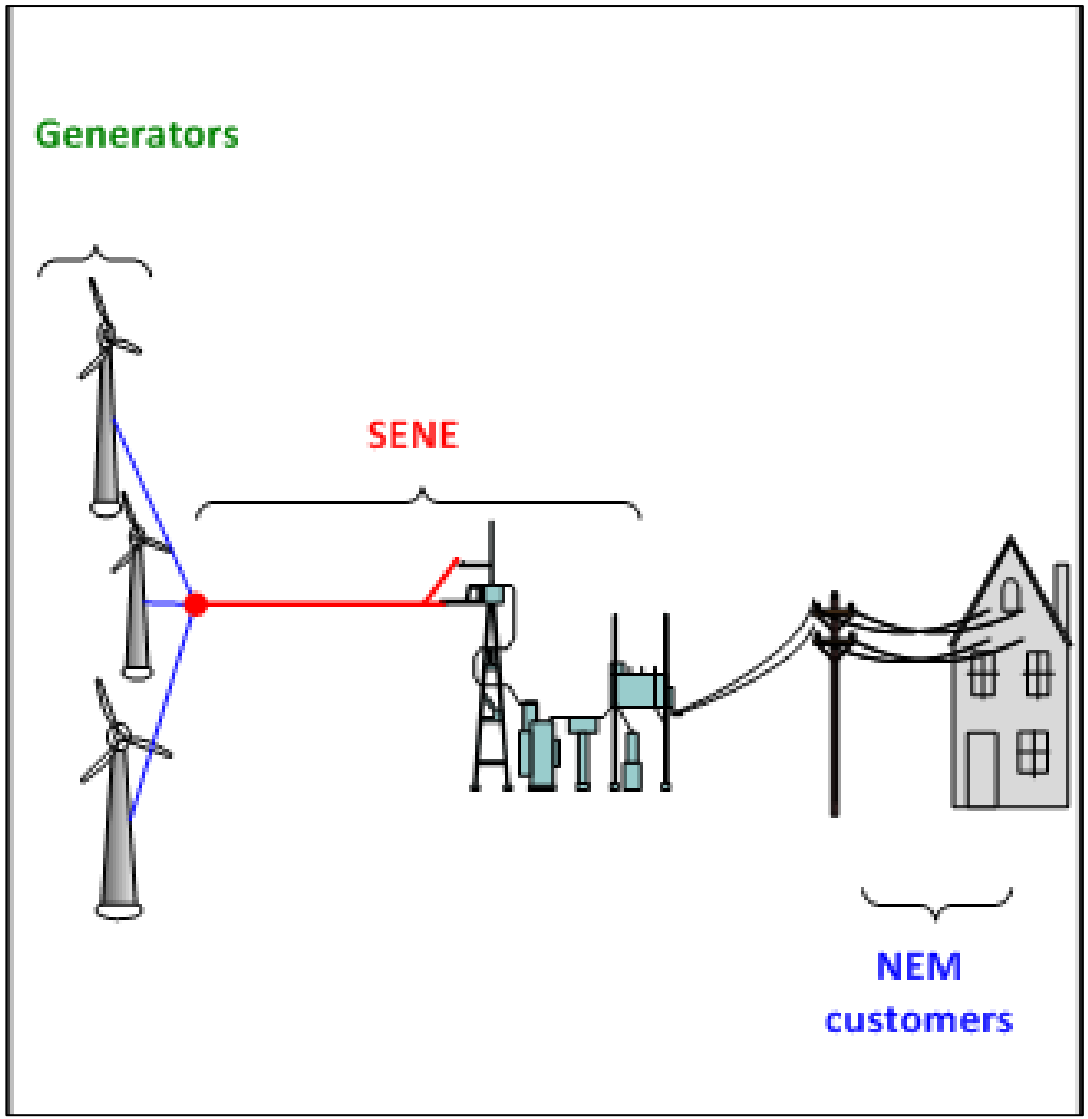
… Like all investors we want the ability to choose which projects go forward

The Problem …

- Transmission investment is most efficiently and cost effectively undertaken in large increments - to achieve **economies of scales** (i.e. cost savings which materially improve the economics of a project)
- This is particularly important in the context of remote connections where long distances and consequently high costs can prove prohibitive

… Current arrangements don't facilitate the coordination necessary to achieve scale economies

A more strategic approach to transmission build is now required …



- The concept of the SENE fulfils this purpose
- Whereby a larger transmission line can be built in advance of all prospective generators being ready to connect
- Importantly this allows for the realisation of economies of scale, and a lowering of the cost of connection, which is ultimately passed through to households and other consumers of electricity

Devil is in the detail - there are some complexities associated with the SENE design …

- Whilst Origin agrees that there are a number of complexities associated with the SENE design, that in itself is not sufficient to rule out its implementation
- An appropriately designed SENE will provide an efficient means of connecting remote generation

Issue	Principle
SENE introduces a new class of transmission asset	This is warranted given the changing nature of the market (i.e. need to incorporate increasing amounts of renewables); and the inadequacy of the current framework
Optimum size of SENE and minimising stranding risk	Appropriate decision making rule needs to be in place to ensure the efficient sizing of the SENE and minimisation of stranding risk
Access rights on the SENE	Should be in line with current arrangements

… These issues are not insurmountable and Origin will continue to work to develop proposed solutions

There are a number of myths regarding the operation of the SENE that should be dispelled …

- **It is a subsidy**
  - Not true; **each generator would pay its proportionate cost** of the transmission line as it connects. Whilst the portion of the line that is built in advance of firm generator commitment is initially paid for by customers, these costs are recouped once generators connect
- **It is unprecedented**
  - The **Victorian 500 kV** line was initially built with a great deal of spare capacity. It makes sense to build large transmission assets as opposed to undertaking small scale incremental augmentations which are likely to ultimately prove more costly
  - Jurisdictions such as **California** have already adopted similar mechanisms to the SENE to allow for the unlocking of remote generation
- **Skews locational signals**
  - By accounting for the market failures inherent in the current framework the SENE **merely levels the playing field for remote generators** by facilitating connection. Consideration of loss factors and congestion risk will still have to be taken into account when making investment decisions
  - The existence of the SENE mechanism does not automatically mean that remote generation projects will go ahead. It simply increases optionality - at the end of the day investment decisions are market driven and investors will make a decision based on least cost/highest pay off

There is some debate as to whether the current framework is sufficient, precluding the need for the SENE …

- Specifically it has been argued that the RIT-T could be used to facilitate remote connections
- Origin, however has a number of concerns with applying the RIT-T:
- **Bias toward reliability based augmentations**
  - Historically this has been one of the weaknesses of the previous Regulatory Test, largely due to the inherent difficulties in justifying augmentations on the basis of market benefits.
  - This is likely to persist under the RIT-T despite the amalgamation of the reliability and market benefits limb
- **Inherent difficulties in justifying projects on the basis of market benefits**
  - This is primarily due to the complex, and in some cases, contentious nature of the assessment given the many assumptions (such as generator dispatch patterns, fuel costs) that need to be made in undertaking the analysis
- **Doubts as to whether remote connections can pass the RIT-T**
  - Even efficient projects could have difficulties passing the RIT-T
  - Doubt as to whether the RIT-T is able to adequately capture the long term benefits of over-sizing transmission assets. This is notwithstanding the recent inclusion of option value in the test framework – in practice there are likely to be a number of difficulties associated with quantifying the exact benefits of over-sizing assets that typically have a life of up to fifty years

Applicability of the RIT-T Cont'd …

- **Timing issues**
  - Application of the RIT-T could take up to two years if there are disputes, which is likely in the case of remote connections given the many assumptions that have to be made. Not ideal given long lead time needed to effect transmission augmentations
- Arguably a cost–benefit analysis such as the RIT-T may not be an appropriate means of achieving strategic outcomes
- The likely outcome of the application of the RIT-T (in its current form) to remote connection extensions is a process that will be mired in controversy and delay and possibility of none of these connections passing the Test

Key messages ...

- Energy market frameworks need to be responsive to changing market dynamics.
- The ability to connect remote renewables is key to meeting climate change policy objectives efficiently, as it gives investors increased optionality and allows decisions to be made on the basis of least cost
- The current framework does not effectively allow for this to occur
- The RIT-T in its current form is unlikely to adequately support the connection of remote generation
- A more strategic approach, such as that envisioned under the SENE is required
- The complexity of the framework is not sufficient to rule out the SENE's implementation
- Policy makers and industry should work to refine the SENE concept into a practical and workable mechanism.

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