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Dear Dr Tamblyn

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Review of Energy Market Frameworks in light of Climate Change Policies (Review) Second Interim Report (Report).

The South Australian Government is a strong supporter of the Carbon Pollution Reduction Scheme (CPRS), the Expanded Renewable Energy Target (RET) and the economic development benefits from accelerating investment in renewable energy in South Australia.

The South Australian Government recognises the need to address the shortcomings in the existing connection framework for connecting remote generation to the network and is supportive of the proposed Network Extension for Remote Generation regime, noting that there is likely to be a role for the Commonwealth in funding infrastructure to support the orderly implementation of national climate change policies.

It is important the new regime balance the risk of non-investment and the cost to consumers from funding under-utilised network infrastructure. The approach by the Australian Energy Market Operator in identifying zones for remote generation will influence the response by prospective generators. On the second point, I strongly encourage you to include an appropriate economic test to strengthen the proposed framework and provide an open and transparent mechanism in which cost effective augmentation is determined.

As you are aware, congestion is already having a market impact in South Australia and is likely to increase with additional wind generation arising from the RET. The Review provides an opportunity to develop a sustainable framework to manage such congestion. Deeper connection charges do not act as a barrier to entry for new generation rather costs of any deeper network reinforcement required to maintain the existing access to the network signal the true costs of connecting to the network. Deeper connection charges provide for a user pays approach to network augmentation which should lead to more efficient investment in both generation and network assets in the National Electricity Market. Deeper connection charges should be able to be designed to provide a flexible long term signal for all new generation to locate to avoid congestion.

The AEMC's proposed congestion pricing mechanism to manage short term congestion is not supported given its ad-hoc nature, making it difficult for market participants to understand and manage their potential liabilities. In addition, a number of aspects of the proposed Generation transmission use of system (G-TUOS) charges warrant further analysis including such charges being based on actual network upgrades required to reduce congestion.

The inter-regional transmission charging model proposed by the AEMC should promote the long term development of an inter-connected national grid by applying to all existing and new assets used for providing inter-regional transfer capability to enable an appropriate allocation of costs to consumers in different regions. I support the use of such a model with the addition of the Australian Energy Regulator (AER) establishing and enforcing a robust and transparent auditing process to the framework outlined by the AEMC.

This will enable the reporting and verification of the use of the load export charge paid by importing Transmission Network Service Providers (TNSPs) to exporting TNSPs. This would be a minimal additional impost on the AER and TNSPs which would be outweighed by the benefits of providing information and transparency to the market on the cost and ongoing maintenance of these shared assets.

With regards to generation capacity in the short term, from the options provided by the AEMC for stakeholders' feedback, the short term Reliability and Emergency Reserve Trader (RERT) (as a short term measure) and the standing reserve mechanism (as a long term measure) should be considered further as part of this Review. The short term RERT is an important step forward by introducing more flexible arrangements to call for reserve in order to minimise interruptions to the electricity supply. The standing reserve mechanism should be developed to allow participation by the broadest range of potential providers to minimise costs to consumers and promote economic development opportunities with demand side and distributed generation.

It is unclear whether the AEMC will advise stakeholders on the AEMC's preferred options for addressing generation capacity in the short term prior to the release of the Final Report in September 2009. The Second Interim Report canvasses several options for consideration by stakeholders without indicating which of these are preferred by the AEMC. Given the materiality of this issue, I encourage the AEMC to ensure that all market participants are given the opportunity to comment on all of the AEMC's draft recommendations on this topic prior to the finalisation of the recommendations in the Review's Final Report.

Yours sincerely



HON PATRICK CONLON MP
MINISTER FOR ENERGY

19 August 2009