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Mr John Pierce
Mr Neville Henderson
Dr Brian Spalding
Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Dear Commissioners

ERC0100: Options Paper: National Electricity Amendment (Scale Efficient Network extensions) Rule 2010

TRUenergy welcomes the opportunity to provide a submission to the AEMCs Scale Efficient Network Extensions (SENE) Options Paper and the associated Rule change proposal.

Consistent with our original position, we continue to support the implementation of a framework for SENEs on the basis they are intended to facilitate the efficient coordination and connection of clusters of smaller new generation in proximate locations and to introduce economies of scale in the long-term network infrastructure investment required. Essentially, by reducing connection costs which will in turn lead to lower wholesale energy costs and increased supply side competition, over time a SENE should present a win-win situation to all interested parties – (multiple) generators and customers alike.

In adopting this position, we recognise the inter-related issues that SENEs and the proposed Rule change are trying to address:

- existing arrangements are unlikely to allow efficient outcomes for new patterns of generation investment;
- difficulties in coordinating multiple parties connecting at different time intervals;
- generators' unwillingness to scale up network extensions; and
- TNSPs' inability to scale up network extensions.

After carefully considering the Options paper, we conclude that subject to some modifications - Option 4 best promotes the NEO. At the SENE public forum held in Adelaide on October, we advocated the merits of this revised option on the basis that it draws from more balanced aspects of all the options presented, provides greater certainty in costs and prices associated with connection and congestion, and is therefore likely to be more acceptable to a wider range of stakeholders in the market.

Importantly, we reiterate our support for the SENE framework on the basis it facilitates the delivery of federal government policies and goals, like the RET, in the most efficient manner. Whilst the market may not always agree on whether these policies are appropriate, the rules require the AEMC to accept a rule change that helps implement these policies in the most efficient manner on the basis this is consistent with the NEO. For this reason, we agree with the AEMC's position that the Rules should 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.' [1] .

Finally, the AEMC's position on whether to accept this Rule change should not be influenced by its lack of popularity in the market. Its decision regarding this matter should be based solely on whether the rule change (or a proposed variation) meets the NEO. In this regard, we submit that the combined parts of our revised Option 4 will deliver the most efficient outcome to best satisfy the NEO - compared to the other alternatives considered in the Options paper. We request the AEMC give serious consideration to our claims.

A: Key issues for consultation

The AEMC's Options Paper is intended to test a number of potential solutions with stakeholders to assist the Commission in determining which will best address the identified gaps in the existing framework, consistent with the NEO.

In particular, the AEMC is seeking stakeholders' views on:

- which option best promotes the NEO, and why;
- whether there are other broad implementation issues associated with the options that have not been identified; and
- whether there are other options we should consider which may better address the issues identified by this Rule change and, if so, how they would better promote the NEO.

TRUenergy's views on these matters are outlined in the following sections.

B: TRUenergy support a new framework for SENEs: Revised Option 4

TRUenergy supports a modified Option 4 because we consider that across the balance of its key design features it is likely to best promote the NEO. Modified Option 4 is summarised in the following table and represents a hybrid of the features inherent in the original options presented by the AEMC.

Key design feature	Option 4	TRUenergy (Revised Option 4)
Trigger for considering a SENE	A generator connection inquiry	A generator connection **application**
Investment Test	Signed connection agreement with first generator, RIT-T applied to incremental capacity	Signed connection agreement with first generator, **with explicit economic test applied to assess the merits of SENEs**
Cost allocation and charging methodology	Fist generator pays stand alone costs. Customers underwrite costs of incremental capacity. Both these	Fist generator pays stand alone costs. Customers underwrite costs of

[1] AEMC (2010), SENE Options paper, p.9

	charges reduce over time with further connections.	incremental capacity. Both these charges reduce over time with further connections.
Access provisions	As per shared network	**Mandated Compensation arrangements**
Regulatory oversight	AER reviews application of RIT-T, AEMO reviews forecasts	AER reviews application of RIT-T, AEMO reviews forecasts

Each of the preferred key design features are discussed in further detail.

Key design features:

i. Trigger for considering a SENE

TRUenergy considers the appropriate trigger for investigating the merits of a SENE should be market tested. On this basis, any SENE consideration should only occur once a connection application by a generator (or group of generators) has been made and where the stand alone costs of connection in the absence of any scale efficient option are paid for. This trigger avoids reverting to the more centralised planning and annual investigation process to be undertaken by AEMO, as envisaged in the original Rule change proposal, and is market tested on the basis the initial proponent has made a commercial decision to invest in the area.

From an implementation perspective, the market tested SENE trigger also leverages off the TNSP's knowledge and consideration of previous and current connection enquiries in the area of interest, and its closer understanding of network development requirements as compared with AEMO, while still being strongly informed by the NTNDP.

TRUenergy also considers that a connection application is the preferred trigger for a SENE investigation compared to a connection enquiry, given the commitment of the proponent has progressed to a more firm position.

ii. Investment test

TRUenergy supports a revised economic test - which is separate from the RIT-T - be included in the planning and justification process on the basis that customers are expected to fund the incremental portion of the SENE construction. This test would be simular to the explicit economic test considered in Option 2 of the AEMC's SENE Options paper. This test would be narrower than the RIT-T because it would only consider the costs and benefits of the proposed SENE within a defined area.

The revised economic test would not explicitly calculate the market benefits of any concurrent augmentation on the existing network. It would take the form of a cost benefit assessment and would be applied to the incremental capacity which was built in excess of the 1st connection proponent's capacity requirements. Unlike the RIT-T, the assessment would only consider the merits of the proposed SENE investment.

We support this form of a revised economic test because:

- SENE analysis undertaken by NSPs should determine whether a proposed SENE investment is likely to deliver net market benefits in a defined area. It does not need to consider the net benefits of any other augmentation to the existing network.

- The RIT-T would be applied to a range of possible investment alternatives under a range of credible scenarios on the shared network. We are not convinced that assessing the net market benefits of augmentations on the shared network is relevant in assessing the efficiency of a SENE.

- SENE revised Option 4 would eventually exist as a "negotiated service". Ultimately, generators would finance the SENE. The RIT-T in itself assesses the market benefits of a range of augmentations under a range of credible scenarios to determine the investment option that maximises the net benefits. Ultimately, the

costs of investments that pass the RIT-T are paid for customers. Under this revised Option 4, the generators will ultimately pay for the SENE. Therefore, the RIT-T is probably not the right investment test to apply to the incremental capacity of an investment that resides in the "negotiated services" framework.

- The RIT-T consultation process is lengthy especially when there are disputes regarding the findings. Given the commercial interests that are tied to the outcomes of the SENE, there is a high chance that disputes will be raised which could further lengthen the time frame to undertake and complete the RIT-T..

iii. Cost allocation and charging methodology

TRUenergy supports a cost recovery and charging methodology approach that will help to maintain the appropriate locational signals for generators that connect to the SENE.

On this basis, we support the cost allocation and charging methodology applied in Option 4. Under this option, the fist connecting generator would pay its stand alone costs to connect to the SENE and customers would fund the incremental capacity on the basis a net market benefit has been identified and that in the longer-term the investment is scale efficient. As subsequent generators connect, the costs recovered from both the first generator and customers would reduce over time. Once all anticipated generation connects, all generators would face their proportional average cost.

TRUenergy believes that essentially, over time a SENE with a cost recovery and charging methodology as included in Option 4 should present a win-win situation to all interested parties – (multiple) generators and customers alike on the basis a SENE will reducing connection costs, which will in turn lead to lower wholesale energy costs and increased supply side competition.

iv: Access provisions

TRUenergy supports SENEs operating with firm financial rights.

Generators would receive compensation if they were constrained off below their agreed power transfer capability set out in their connection agreement. In addition, they would be required to pay other generators on the SENE compensation if they were able to generate in excess of their agreed power transfer capability.

Currently, under the Rules, it would appear that where a connection applicant built a network extension under the negotiated services framework or as a competitive asset, then third party generators maybe able to connect to that asset. That is, smaller augmentations built under the negotiated services framework would provide their owners with exclusive rights to the assets. Where as, larger network extensions are more likely to be expected to provide access to third parties who wanted to connect to the asset. Where this occurred, the original proponent of the network extension would be free to apply for a tariff reduction. However, it could never recover compensation for being constrained off by a third party who decided to connect to that asset.

Generators acquire a firmer transmission service when they pay to connect to the SENE under Option 1. This means they purchase a power transfer capability which is contained in their connection agreement. This approach represents an improvement to the current approach of building a network extension. It simply means that the original generator that took the risk and built and paid for the network extension can enjoy the ongoing benefits of that investment. At the same time, the owner of that asset may allow other generators to connect and utilise any underutilised capacity.

Under these revised arrangements for mandated compensation for "constrained off" payments for "negotiated services" generators that pay for the SENE as a negotiated service would receive some firmer form of transmission service. Because these generators have paid for this investment, they have received some firmer form of service in return. We believe this outcome is efficient and consistent with the NEO.

Finally, just because these arrangements might be different from the arrangements on the shared network, does not mean that they are inefficient. Ultimately, it is up to the AEMC to determine whether this type of arrangement is consistent with the NEO. Importantly, these arrangements should not be rejected on the basis that these

arrangements are different form the current arrangements on the shared network. That should only be rejected if they are in-efficient and inconsistent with the NEO.

v: regulatory oversight

TRUenergy takes the issue of asset stranding in the SENE proposal seriously.

We see no reason why any incremental capacity justified under the SENE framework should result in the over development of a transmission capacity, which would be underwritten by consumers.

We submit the regulatory arrangements inherent in Option 4 provide good checks and balances to minimise the risk to consumers. For example:

- The Australian Energy regulator (AER) reviews the NSPs application of the explicit economic test. This will ensure that all the assumptions made in the economic assessment are reasonable. And, it will ensure the incremental capacity of the SENE is economically efficient thereby reducing asset stranding risk to the consumer.

- The AEMO assess the generation forecast profiles. We concede that forecasting generation profiles of specific generators can be difficult, particularly over long time frames. However, AEMO already forecasts generation profiles as part of its National Transmission Planner (NTP) role.

We would support providing a power of veto to the AER in assessing a SENE where it considered a connection agreement was unreasonable. We believe that this would further consolidate the regulatory over sight arrangements.

C: Conclusion

TRUenergy has appreciated the opportunity to provide a submission to the AEMCs Scale Efficient Network Extensions (SENE) Options Paper and the associated Rule change proposal.

Consistent with our original position, TRUenergy continues to support the implementation of a framework for SENEs on the basis they are intended to facilitate the efficient coordination and connection of clusters of smaller new generation in proximate locations and to introduce economies of scale in the long-term network infrastructure investment required. Essentially, by reducing connection costs which will in turn lead to lower wholesale energy costs and increased supply side competition, over time a SENE should present a win-win situation to all interested parties – (multiple) generators and customers alike.

After carefully considering each of the SENE options presented and the inherent limitation of the current framework, TRUenergy has concluded that subject to some modifications - Option 4 best promotes the NEO.

For further enquiries regarding this submission, please feel free to contact Mr. Con Noutso Regulatory Manager at TRUenergy on Tel: 03 8628 1240

Regards

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