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- 1 DEC 2008



**Government  
of South Australia**

2008/12570/01

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Dr John Tamblyn  
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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) Scoping Paper.

The South Australian Government acknowledges that the Review is still in its early stages and the main purpose of the Scoping Paper is to seek comments on which issues are more material to market participants.

I note the Review's Terms of Reference specifies that you are not to review the design of the Carbon Pollution Reduction Scheme (CPRS) and expanded Renewable Energy Target (RET). I strongly encourage you to provide feedback on the CPRS and RET design as part of their consultation processes as your detailed knowledge of the energy industry would provide a valuable insight into the implications of proposed scheme design parameters.

From the Scoping Paper's identified issues I consider Issue 2: Generation capacity in the short term, Issue 5: Connecting new generators to energy networks, and Issue 6: Augmenting networks and managing congestion to be the most material.

The South Australian Government has indicated in its submission on the CPRS green paper that direct assistance to coal fired generators should be consistent with a smooth transition of the electricity generation sector to a low carbon intensity future and be conditional so as to encourage generators to maintain available capacity thereby assisting to address generation capacity in the short term.

It is important that as part of this review generation investment incentives associated with core energy market design such as the Maximum Price Limit are maintained in real terms with the advent of the climate change policies to ensure that new generation investment is undertaken so as to meet the communities' expectations with regard to reliability and security of supply.

Your recent Congestion Management Review Final report concluded that congestion is a relatively small problem for the National Electricity Market (NEM) and that there is no urgency to address it. I note that the Scoping Paper did not highlight dynamic efficiency implications. The design of a congestion management regime to affect

investment decisions is important as the implementation of climate change policies will alter the underlying economics of investment options for new generation capacity.

I am advised that South Australia is close to maximum capacity with current network infrastructure and that the RET will stimulate increased wind capacity investment. South Australia is likely to gain a significant share of this capacity. As wind generation is intermittent further significant increases in wind generation capacity may affect the operation of South Australia's electricity network.

This Review is an ideal opportunity to review and make appropriate changes to deal with congestion. This would enable the development of a robust framework to support a sustainable congestion management regime.

One potential approach for consideration is to provide for deeper connection costs for new generation projects. The costs of any deeper networks reinforcement required to maintain the existing access to the network would signal the true costs of connecting to the network and provide important signals to locate to avoid congestion. This is unlikely however to facilitate investment by remote generators for which the costs would be significant. Accordingly, there is a need to balance the risk of non-investment and the market implications of sharing costs equitably between suppliers and users.


The application of the reformed regulatory investment test for transmission (RIT-T) to consider customer and environmental impacts as market benefits would be consistent with the development of the transmission system to support dynamic efficiency. It may also alter the assessment of projects affecting inter-regional transmission capacity which is important to network stability issues in this state.

Ideally this would be completed prior to the commencement of the CPRS and RET in 2010. I strongly encourage you to consider both congestion and dynamic efficiency as significant issues in the Review.

In summary the need for infrastructure upgrades that will flow from the CPRS and RET raises significant equity issues for South Australia as the existing regulatory framework recovers much of the costs of shared network infrastructure from the host state. I consider it not appropriate that the costs of investments in transmission infrastructure to support a national climate change policy agenda are borne by energy consumers in any one state.

Thank you for the opportunity to make a submission to this stage of the Review.

Yours sincerely



**HON PATRICK CONLON MP**  
**MINISTER FOR ENERGY**

26 November 2008