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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Reference: ERC0106

Dear Mr Pierce

A handwritten signature in blue ink that reads 'John'.

Thank you for the opportunity to make a submission on behalf of the South Australian Government to the Australian Energy Market Commission's (AEMC) second Draft Determination on the Inter-regional Transmission Charging Rule change.

The Government is generally supportive of the AEMC's draft Rule for the introduction of an inter-regional transmission charge, however, further consideration should be given to the proposed construction of the modified load export charge (MLEC).

While the 365 day interval selection method is appropriate, as it will produce more consistent and greater stability in pricing across years, the use of the energy approach (average of customers across the measurement interval) should be given further consideration.

An energy approach provides a more balanced allocation of charges than the capacity method, which allows the use of interconnection assets for import and export in an efficient manner.

It is important to recognise the value of interconnection in the National Electricity Market (NEM) is much broader than just providing capacity. Interconnection also provides a platform for efficient sharing, dispatch and trading of energy across regions to minimise the overall cost of meeting demand. In fact, capacity provides a relatively small benefit as it just displaces local investment in low cost generation.

The current Project Assessment Conclusions Report for the upgrade of the South Australian-Victorian Heywood electricity interconnector demonstrates that positive net market benefits are not attributed to only meeting peak demand requirements.

The market benefit quantification highlighted that changes in fuel consumption and changes in costs for other parties (i.e. changes in generator investment costs) were the two main categories of market benefit for the Regulatory Investment Test for Transmission (RIT-T). The Report states the market benefit arises from the ability of the options to facilitate the increased output of lower operating cost generation (including emissions costs), across the NEM as a whole.

The preferred option to install a third transformer at Heywood in Victoria and associated network works in South Australia will increase interconnector capability by about 40% in both directions. This enables increased wind energy export from South Australia and also increases imports of lower cost generation into South Australia, particularly at times of peak demand.

One of the reasons the Ministerial Council on Energy, now the Standing Council on Energy and Resources (SCER) sought the introduction of an inter-regional transmission charging was to allow regions to pass through transmission investment costs where environmental policies cause a disproportionate distribution of some types of generators to locate in a particular region or regions (for example, to date, the bulk of wind generation is located in South Australia). This was an outcome from AEMC's Final Report on the Review of Energy Market Frameworks in light of Climate Change Policies which resulted in SCER's rule change request.

The capacity approach proposed in the inter-regional charging mechanism may not adequately recognise the export of wind generation from South Australia to Victoria. South Australia is concerned that under the capacity approach, it may be a net exporter of energy meaning South Australian customers still pay an inter-regional transmission charge. Further modelling and clarification is sought from the AEMC on this concern.

In conclusion, it is recommended that the AEMC reconsider its capacity approach, and support the use of an energy approach in its construction of the MLEC as this would better satisfy the National Electricity Objective.

Should you have any questions in relation to this submission, please contact Rebecca Knights, Director, Energy Markets on (08) 8204 1715.

Yours sincerely



Hon Tom Koutsantonis MP
Minister for Mineral Resources and Energy

3 January 2013