

11 November 2010

Mr John Pierce  
Chairman  
Australian Energy Markets Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Mr Pierce

**National Electricity Amendment (Scale Efficient Network Extensions) Rule 2010 options paper [ERC0100]**

Integral Energy welcomes the opportunity to comment on the Scale Efficient Network Extensions (SENE) Rule change options paper (the Options Paper) published by the Commission in September 2010.

Integral Energy is the second largest state owned energy corporation in New South Wales, serving some of Australia's largest and fastest growing regional economies. It provides distribution network services to almost 860,000 customers or 2.1 million people in households and businesses spanning 24,500 kilometres in Greater Western Sydney, the Blue Mountains, the Illawarra and Southern Highlands.

Integral Energy understands that the proposed Rule change is intended to provide for efficient network investment to connect clusters of remote generation. Those clusters are anticipated to arise as the demand for low-emissions generation grows, potentially in response to the imposition of a carbon price. A mechanism is required to effectively co-ordinate the investments or, at least, to efficiently underwrite the timing risk associated with staged generation development.

Broadly, in responding to the alternatives put forward in the Options Paper, Integral Energy continues to share a number of the concerns raised by EnergyAustralia and Grid Australia in their responses to the initial Rule change consultation paper. Those concerns are summarised below.

First, Integral Energy remains concerned that the Commission has not yet clearly demonstrated a failure with the current connection framework in the National Electricity Rules (the Rules). For example, the new National Transmission Planning arrangements and RIT-T test have not yet been given sufficient time to see if they address the perceived risk. In addition, as the Commission itself points out in the Options Paper, recent changes to the Rules now allow for greater information sharing regarding connection applications. This should assist with investment co-ordination. Third, some of the disincentives regarding joint financing of transmission capacity by generators may be able to be addressed by clarifying the circumstances in which those investments become economically regulated. This approach would be preferable to creating a new and complex hybrid model under the Rules involving a partly-prescribed, partly negotiated service.

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On the basis that the Commission's analysis supports there being a genuine market failure, Integral Energy submits that any changes made to the Rules to address the problem should be incremental only. Accordingly, Integral Energy prefers that any solution feature the following:

- to maximise the opportunity for co-ordinated generator investment, AEMO identify potential SENE zones with NSPs obliged to identify credible options (features of Options 1 and 2 in the Options paper);
- to minimise the asset stranding risks to customers, a signed connection agreement with the first generator for a minimum capacity threshold (25 per cent appears reasonable) plus the explicit application of the regulatory test to the incremental capacity (feature of Options 3 and 4 in the Options Paper); and
- to minimise the complexity of the charging arrangements, the introduction of a new type of network charge specific to SENEs (Option 5) rather than the method of cost recovery depending on the status of the assets changing as new generators are added.

Integral Energy does not support the Australian Energy Regulator (AER) having the power of veto over investment decisions (Options 1 and 2). Rather, it prefers that the AER have the role of reviewing the application of the regulatory test where concerns are raised by a relevant stakeholder. The latter approach would be more consistent with the existing regulatory framework where the focus is on ensuring the quality of the connection process.

Consistent with the views expressed above, Integral Energy also prefers that the terms and conditions of access to SENEs be kept on the same basis as the current shared network arrangements. Integral Energy cautions that alternative arrangements (such as mandatory compensation payments per Option 1) should not be introduced without their first being considered alongside the other design issues currently the subject of the Commission's Transmission Frameworks Review.

In conclusion, Integral Energy submits that the potential risk to customers from asset stranding combined with the potential complexity of some of the solutions put forward in the Options Paper reinforce the importance of the Commission ensuring that:

- its analysis demonstrates that the suspected market failure is likely to be material; and
- any changes to the connection framework are only those necessary to address the scope of the problem.

If you have any questions in relation to this submission, please telephone Anthony Englund, Regulatory Policy Manager, on (02) 9853 6511.

Yours faithfully



Michael Martinson  
**Manager Network Regulation**