

3 August 2009

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: submission@aemc.gov.au

Dear John,

Submission: Review of Energy Market Frameworks in light of Climate Change Policies (2nd Interim Report)

AMEC Reference: EMO 0001: 2nd Interim Report

This submission is in response to the Review of Energy Market Frameworks in light of Climate Change Policies (the Review). It is fundamental that the NEM allow for any climate change policy to be practically embodied and encouraged within the NEM.

Hill Michael is engaged by a wide client base (including intending participants and NSPs), encompassing clients at various stages of the connection process. Hill Michael facilitates a number of connection agreements between intending participants and connecting NSPs.

Hill Michael believes that the Review has highlighted a number of areas which require addressing in order to encourage renewable energy projects as a consequence of the Carbon Pollution Reduction Scheme (CPRS) and the Renewable Energy Target (RET).

In particular, Hill Michael would like to pass comment on, two areas for further consideration by the Review namely:

- Connecting Remote Loads and Generation
- MLF Impacts and Distortions

CONNECTING REMOTE LOADS AND GENERATION

Connection and access to network infrastructure is critical to exporting renewable energy from remote areas into the NEM. The proposed changes with respect to Network Extensions for Remote Generation by either regulated or independent NSPs are fully supported by Hill Michael. Hill Michael believes that independent NSPs may provide an important mechanism for delivery of the network services associated with the proposed Connection Hubs.



Hill Michael believes that the current Rules do not provide appropriate step change in network development at the extremities of the system eg: Broken Hill, North and Western Queensland. This issue is not restricted to renewable generation. Therefore Hill Michael believes the development of coordinated network extensions should not be limited to wind energy hubs but also take into account other energy sources and loads in “remote” parts of the network.

MLF IMPACTS AND DISTORTIONS

The impact of NERG hubs is to encourage RET driven generation into currently weak or non-existent parts of the National Grid. The result is not only prohibitive connection asset costs which are addressed through other recommendations but also a significant impact on MLFs.

The weakness of the current treatment of MLFs is that it has no transitional path. The reduction in MLFs is a benefit to local customers but can be a prohibitive impact on generator revenue.

The MLF is a course economic signal which encourages incremental development of the network. The current Review is a clear example that there are circumstances in the energy market which justify a step change in either infrastructure or market arrangements. Given that the current treatment of losses does not account for carbon impacts the renewable generator is not compensated for the fact that the losses of getting its generation to market do not produce a carbon impact whereas the losses from conventional generation does.

The reduced MLF has a double negative impact on renewable generators;

- 1 it reduces the revenue from sale of electricity; and
- 2 it reduces the revenue from REC because of the adjustment of MWh by MLFs to calculate eligible REC creation.

The second issue above is a problem with the formation of the RET rules but the AEMC should be aware of the unintended impact of the current MLF application.

AEMC should consider a process that allows a transitional introduction of MLF changes so that the massive reductions in MLFs that will result from significant generation into hubs that are (by their very nature) a long way from loads, do not limit the optimisation of the renewable resource.

In general the proposed direction that the Review has taken is supported by Hill Michael.

Yours sincerely,



John O'Brien
Managing Director