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

Dear Mr Pierce 

**ERC0100 – SCALE EFFICIENT NETWORK EXTENSIONS RULE 2011**

Thank you for the opportunity to comment on the draft rule determination for the proposed Scale Efficient Networks Extensions (SENEs) Rule 2011.

The AER agrees that the current bilateral negotiation process for connecting new generators can be improved to better accommodate multiple connection applications. However, the AER has previously noted that the shortcomings of the current arrangements are not so significant that major amendments to the network planning and augmentation process are warranted.

Market mechanisms are best placed to ensure efficient investment outcomes. Regulatory intervention should be limited to removing the impediments to market participants developing an efficient market response. This is particularly important in a fast changing technological environment such as the one that characterises the development of renewable generation.

Further, the length and complexity of the draft rules associated with the previous SENEs hub proposal was likely to create significant upfront and ongoing costs for parties involved in the SENE process. It was not clear that these costs would be proportionate to the problems which the SENE rules sought to address.

The AER considers that the ‘more preferred rule’ proposed by the AEMC is an appropriate response to the shortcomings that have been identified with the current arrangements. In particular, the allocation of risks under the AEMC’s preferred rule is more consistent with the national electricity objective than other proposals that saw the risk of over forecasting future

generation volumes being placed on customers. Under the previous SENE draft rules, there was no efficiency test associated with the proposed planning arrangements. Instead efficient outcomes relied on accurate future generation forecasts, with customers bearing the cost of forecast overestimations.

Key to this issue is the probable existence of large economies of scale from being able to 'oversize' connection assets to cater for potential future generation investment in the same geographic area. However, as the AEMC highlights, attempts to capture these scale economies must also consider where the risk that the benefits do not materialise, should reside.

The preferred rule allows for a detailed study to be undertaken on the scale efficiency benefits of a proposed network extension. Importantly, it then allows these scale efficiencies to be captured by a party who assesses that they are capable of managing the risk that these scale benefits may not materialise. The AEMC has correctly concluded that customers are not best placed to manage these risks. As such, the AEMC's preferred rule is supported as being more consistent with the national electricity objective than the proposed rule change.


In regard to the proposed drafting of the new rule 5.5A, it is considered that the matters to be considered in the scoping study are appropriate. However, there may be scope to more explicitly require network service providers to consider the future development of the transmission network. It is suggested that in addition to the national transmission network development plan, network service providers should also take into account recent annual planning reports.

Further, it is noted that under the proposed rule 5.5A.4(c) a network service provider is explicitly not required to provide data requested by the network service provider undertaking the scoping study. It is unclear why this provision has been included. Subject to further articulation of the reason for the inclusion of this clause, it is suggested that clause 5.5A.4(c) be amended to explicitly require the provision of such data to a requesting network service provider.

Clause 5.5A.4(d) provides that a network service provider must identify any confidential information. As clause 5.5A.6(e) requires that a network service provider not include any information in the scoping study that was identified as confidential under clause 5.5A.4(d), it is considered that there are already sufficient protections for confidential information.

If your staff have any questions on this submission, please contact Ross Mitchell on 02 9230 9127 or [ross.mitchell@aer.gov.au](mailto:ross.mitchell@aer.gov.au).

Yours sincerely



Michelle Groves  
Chief Executive Officer