

12 November 2010

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
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**Rule Change Reference Code: ERC0100**

Dear Mr Pierce

**RE: ERC0100 – Scale Efficient Network Extensions, Options Paper**

Alinta Energy Limited is pleased to have the opportunity to provide comment on the Australian Energy Market Commissions (AEMC) Scale Efficient Network Extensions (SENE) Options Paper. The Options Paper forms the second stage of consultation in response to the Ministerial Council on Energy (MCE) submitted Rule change request for the introduction of SENEs into the National Electricity Law (NEL) and National Electricity Rules (NER).

*Alinta Energy*

Alinta Energy Limited (AEL) is an ASX listed energy business. Our business is diversified by geographic location, fuel source, customers, contract type and operating mode. We own and operate approximately 3,000MW of generation across a range of technology types and service approximately 600,000 retail gas customers in Western Australia as well as around 30,000 electricity retail customers in Victoria.<sup>1</sup>

*Satisfying the NEO*

Whilst AEL commend the AEMC on the work performed to date in identifying potential Options for the implementation of the SENE Rule Change, AEL are of the belief not one of the Options presented meets the National Electricity Objective (NEO), and subsequently the proposed Rule change should be rejected by the AEMC. Crucially, AEL is concerned that of the material presented thus far by the Commission there is no articulation as to how the proposed SENE passes the NEO.

AEL notes the Commissions *National Electricity Rules – Guidelines for Proponents: Preparing a Rule Change Proposal* (July 2009) requires that before making a rule that is to become part of the NER the Commission must apply the Rule making test as set out in the NEL, and that test **requires** that the Commission be satisfied that the Rule will or is likely to contribute to the NEO.<sup>2</sup> Moreover, the Commission also guides Rule change proponents that the Rule change proposal is **required** to:

- “...support **propositions** of fact made in the proposal by **evidence**;
- to support **propositions** as to effects by **analysis** (both quantitative and/or qualitative)

<sup>1</sup> Neighbourhood Energy Pty Ltd is a wholly owned subsidiary of AEL

<sup>2</sup> AEMC, July 2009, *National Electricity Rules – Guidelines, Guidelines for Proponents: Preparing a Rule Change Proposal*, page 5.

- *to identify how the proposed Rule (if made) will contribute or is less likely contribute to the achievement of this objective.*"<sup>3</sup>

In addition the Commission's guidelines emphasise that Rule change proponents need to include an explanation of the expected costs and benefits of a change. In doing so the Rule change proponents "should comprehensively address" two components; 1) the expected benefits and costs of the proposed change; and 2) the potential impacts of the change on those likely to be affected.<sup>4</sup>

From a practical perspective the NEO's core is to promote long term efficient investment, operation and use of the electricity system by having regard to consumers with respect to:

- price, quality, safety, reliability and security of supply; and
- the reliability, safety and security of the national electricity system.

For the SENE Rule change proposal to meet the NEO the Commission must be satisfied that in the long term with the introduction of the SENE Rule change:

- consumers will face lower electricity prices. This requires that the capital investment and running costs of the generation technology to be facilitated by the SENE Rule plus the increase in the transmission costs flowing through to consumers is less than existing generators required rate of return on capital and running costs, and the capital investment and running costs of other new generation technologies that decide to connect to the existing national electricity system;
- consumers will, at least, face the same level of quality, safety, reliability and security of supply or an improved standard across the national electricity system;
- SENE will not detract from the current reliability, safety and security of the broader national electricity system, and are considered as providing a net benefit under the NEO. The SENE Rule change would therefore need to make an improvement to the national electricity system across these service characteristics.

The introduction of a SENE mechanism into the National Electricity Market (NEM) appears to be a direct response to the public policy objective of lowering the carbon intensity of the electricity system (primarily facilitated through the expansion of the Renewable Energy Target (RET)) rather than making amendments to the NER in order to better meet the NEO. AEL argues that assessment of a SENE mechanism under this framework would not pass the NEO. This is particularly the case where the outcomes of the Rule change request is likely to result in reduced reliability, safety and security of the broader electricity system particularly in the short term through the introduction of significant intermittent generation.

Furthermore AEL are concerned the Commission as yet has not presented material that adequately address the costs and benefits of the proposed SENE Rule change and subsequently have not sufficiently satisfied the above requirements. Without providing the aforementioned material AEL fails to see how the proposed SENE Rule sufficiently contributes to the NEO.

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<sup>3</sup> AEMC, July 2009, *National Electricity Rules – Guidelines, Guidelines for proponents: Preparing a Rule Change Proposal*, page 5 (emphasis added).

<sup>4</sup> AEMC, July 2009, *National Electricity Rules – Guidelines, Guidelines for proponents: Preparing a Rule Change Proposal*, page 5-6.

### *Investment Environment*

In recent times key policy changes including the RET and the likely introduction of a price on carbon have drastically changed the environment in which an energy business now makes their final investment decision, particularly when investing in generation. These policy drivers (or the threat of these policy drivers) have seen a significant swing towards investment in commercial (largely intermittent) renewable generation technology – specifically wind. At present the market is yet to see a significant investment in 'new' renewable base load generation. This is principally due to the commercial viability of these technologies remaining unproven on a large scale.

A SENE investment which increases the level of intermittent generation within the network potentially creates additional issues where 'load following' generation investment is required in order to meet the reliability standards of the system. Without the introduction of additional reliable capacity a SENE investment connected to considerable wind generation is likely to negatively impact the NEO, specifically failing to meet the reliability, safety and security of the broader national electricity system. Facilitating accelerated connection of intermittent generation only emphasise these potential risks further.

AEL understand the NEM therefore face a number of unique challenges in light of the location of fuel sources for these technologies, ensuring timely investment in appropriate (additional) generation technologies, optimising investment in network infrastructure, all whilst maintaining the overall reliability, safety and security of the system. These issues are likely to be exacerbated further in the short to medium term, where further investment in intermittent generation is likely to be the outcome of the SENE Rule change.

Without the inclusion of a SENE mechanism within the NER it is unlikely the required investment in the network to accommodate these remote located renewable technologies would otherwise pass the Regulatory Test for Transmission (RIT-T) or the NEO. Without a SENE mechanism this generation is otherwise not commercially viable.

AEL considers where an investment in remote located generation technologies fails to reach the committed/completion stage it is more likely a reflection that such investment does not meet the commercial objectives of the business, subsequently not providing the required rate of return to the business rather than a failure of the current framework. AEL note despite the apparent difficulties in making investment in renewable generation technologies the market continues to see significant investment from market participants.<sup>5</sup>

It is important to recognise that the current arrangements support the delivery of affordable, reliable, secure and safe electricity supply to consumers. Given that consumers are the recipients or primary beneficiaries of the reliable and affordable electricity supplied through built transmission lines to serve growing consumer loads there are strong efficiency arguments to support consumers meeting these transmission costs – and ultimately being allocated the risks. For the Commission to afford the same risk

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<sup>5</sup> AEL note the market continues to invest in significant renewable generation developments despite these perceived challenges, AGL and Meridan Energy announcing their commitment to constructing the Macarthur Wind Farm a 420MW development in Victoria.

allocation to consumers for the proposed SENE Rule without providing evidence of the net benefits, in terms of affordability and reliability to consumers from remote connected generation suggests a regulatory decision-making that is less than complete.

#### *Cost / Benefit Analysis*

To date AEL recognise the AEMC have yet to undertake an independent cost benefit analysis of the likely impacts of the introduction of a SENE mechanism within the NER, instead relying on the modelling work and illustrative examples completed by jurisdictional Network Service Providers (NSP) and their representative body (Grid Australia). A review of the Commission's published material covering the proposed SENE Rule change identifies the presentation of a potential quantitative benefit as submitted by CitiPower and PowerCor Australia that \$12 million in capital investment would have been saved to connect four generators across 35 kilometres of high transmission line.<sup>6</sup>

AEL considers the potential impacts of a SENE have not been appropriately assessed, particularly on the shared network, where the incentives of such participants are not necessarily aligned with those looking to undertake investment in generation. AEL subsequently remain sceptical as to whether such a mechanism is warranted in the current market environment. As noted earlier AEL understands the AEMC as an independent body requires Rule change proponents to present independent quantitative and qualitative analysis in making a Rule change proposal. In assessing a proposed Rule change AEL considers it prudent of the AEMC to complete independent assessment of the submissions and modelling outcomes submitted by market participants and interested parties.

AEL is concerned that the Commission is erring towards pursuing the proposed SENE Rule change without any clear quantitative analysis or evidence beyond the NSP and Grid Australia's presentation, suggesting that it would pass the NEO and provide a net benefit to the market as required by the tests set out within the Commission's own guidelines. In this instance the Commission may be in a predicament of making a Rule change that may, if introduced be to the *detriment* of the NEO.

#### *Risk Allocation*

AEL agrees with the AEMC in that '*...efficient outcomes will arise where risk is allocated to those that are best placed to manage it*'.<sup>7</sup> AEL notes that without policy certainty on Australia's response to reduce carbon emissions there can be no efficiency gains to be secured by Australian consumers from connecting remote renewable generation. However, if any of the Commission's current SENE Options were implemented there would on the other hand be at least known transmission costs that would be added to each and every consumer's final electricity bill – and if the remote renewable generation technology remains uncommercial or proves to be un-reliable these increases are likely to survive for the life of the transmission assets – between 40 and 60 years which in financial terms is perpetuity.

AEL recognise the conflicting incentives faced by TNSPs and generators when attempting to optimise an investment decision, the need to coordinate these investment decisions to the markets best ability and a

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<sup>6</sup> AEMC, 30 September 2009, *Review of Energy Market Frameworks in light of Climate Change Policies – Final Report*, page 15.

<sup>7</sup> AEMC SENE Options Paper: page 17.

TNSPs need for certainty in recovering its investment in the network. Despite these conflicting incentives AEL considers passing the potential risk exposure onto end users in accordance with the Options presented represents an inefficient outcome given their limited ability to manage these potential risks. AEL considers each Option at present fails to address this potential scenario leaving customers to underwrite a likely inefficient investment (or inefficient incremental investment). Without ensuring an entire SENE investment passes an economic test, the NEO or introducing optimisation of NSPs assets AEL fails to see how the risk exposure of end users is to be mitigated.

#### *Front Running the SENE Rule Change*

AEL is concerned the introduction of the SENE Rules change proposal potentially creates a significant and un-manageable regulatory risk for the Australian electricity market. In particular AEL considers the SENE Rule change procedure would be better assessed post there being:

- an agreed policy framework to reduce greenhouse emissions;
- a release of the Australian Energy Market Operator's inaugural National Transmission Development Plan in December 2010;
- the completion of the Commission's own Transmission Framework Review (TFR).

This information is necessary before the merits of the SENE Rule change can be practically discussed and analysed. Moreover, AEL is concerned that the decision to front-run the SENE Rule change process may have potentially allocated valuable Commission resources away from the Commission's own TFR, which on balance as a review of the entire transmission regime must take precedence on account of its importance, but more that the findings of the TFR should identify whether the existing regime is deficient at connecting remote generation.

Rather than ensuring an Option is sufficiently flexible to accommodate any proposed changes as a result of the TFR, subsequently exposing the market to a potential second best outcome or having the market complete a second SENE review post implementation, AEL considers the AEMC should seek leave from the MCE to suspend its review of the SENE Rule change until the outcomes of its TFR have been released.

#### *SENE Assessment*

AEL have structured our assessment of how the SENE meets the NEO around answering the following propositions that we consider that the Commission should analyse to determine the net benefit from the SENE Rule change and proposed options:

- Proposition 1: remote renewable generation technology will be cheaper than existing and future generation technologies that connect to the existing national electricity system to the extent that the increase in transmission prices to consumers will be totally off-set;
- Proposition 2: remote renewable generation technology will improve consumer's electricity supply services in terms of quality, safety, reliability and security and will improve the reliability, safety and security of the national electricity system.

Each of these propositions is briefly explored in Attachment A.

Assessing the Options broadly AEL remains convinced the AEMC has not completed an adequate assessment of the impacts of SENE mechanism on the shared network nor has it demonstrated the SENE mechanism effectiveness at improving the current framework.

Despite remaining unconvinced of the need for the SENE Rule change, AEL recognise the interest in pursuing the introduction of this Rule change and subsequently broadly support the adoption of the alternative Option 4 framework as outlined by the National Generators Forum (NGF) in their submission to the AEMCs Options Paper. AEL however considers adopting the proposed shared network access arrangements as more appropriate in ensuring a level playing field for all market participants connected to the national electricity system.

In addition to the proposition assessment, Attachment A looks to provide specific comment on the five Options presented by the AEMC. Should the AEMC wish to discuss the contents of this submission further please do not hesitate to contact James Reynolds on 07 3011 7646 or Lance Brooks on 07 3011 7667.

Yours sincerely

A handwritten signature in black ink, appearing to read "Scott Turner".

**Scott Turner**  
Executive General Manager  
Energy markets  
Alinta Energy Limited



Attachment A – AEL Submission to SENE Rule Change, Options Paper

- Section 1: Proposition Assessment
- Section 2: Options Assessment

**Section 1: Proposition Assessment**

**Proposition 1:** *Remote renewable generation technology will be cheaper than alternatives*

To provide a net benefit to the market, and to be consistent with the National Electricity Objective (NEO), the remote renewable generation that would connect to a SENE would need to have a combined total cost less than existing generation and new generation technologies that connect to the existing national electricity system. To achieve this, the remote renewable generation long run costs, inclusive of the costs of transmission assets installed specifically to allow them to get electricity to load, needs to be less than the long run levelised costs as set out in Figure 1.

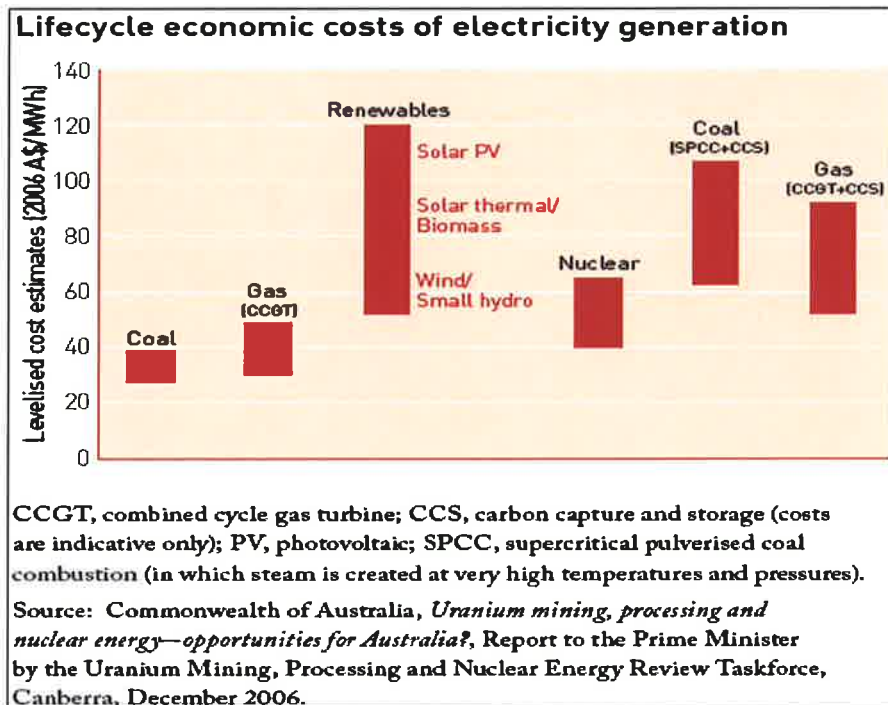


Figure 1 – Lifecycle economic costs of electricity generation – AER State of the Market 2009

Australia's carbon policy response would need to add at least \$20/MWh up to \$80/MWh to make the remote renewable generation technology at least comparable in terms of costs to end users. The additional cost of the transmission, depending on capital cost assumptions, and capacity factors of the remote renewable generation would add between \$100/MWh up to \$200/MWh. AEL maintains that for the Commission to continue to argue for the implementation of a SENE-type framework it must demonstrate that by having these remote renewable generators connected will provide greater efficiency, in terms of final price to end users, than if they were not connected.

To make new remote renewable generation competitive with existing and new entrant generators the unknown carbon policy would need to encompass:

- achievement of an emissions target consistent with a reduction of greater than 25% of 2000 emissions levels by 2020;
- no access to international abatement certificates or product (expensive abatement in Australia);
- no compensation to heavily affected generators and trade exposes industries;
- no ability to pass through additional carbon costs on to consumers.

AEL considers that these assumptions are un-realistic, and fundamentally erode the principle that connecting remote renewable generation meets the efficiency provisions included within the NEO.

**Proposition 2:** Remote renewable generation technology will improve consumer's electricity supply services in terms of quality, safety, reliability and security and will improve the reliability, safety and security of the national electricity system.

AEMO highlighted in the 2010 Electricity Statement of Opportunities generator surveys indicated a large number of proposed wind generation projects, the intermittent nature of which presenting unique operation issues for the NEM.<sup>8</sup> This forecast increase is expected to reduce the stability and security of the existing electricity system. The electricity system is likely to require significant enforcement, including investment in alternate network equipment, such as Static Var Compensators (SVC), Series Compensators, and the use of High Voltage Direct Current transmission lines to accommodate the intermittency of certain renewable generation technology. Additionally the technical requirement of the system would require additional non-energy services to at least maintain the system's overall stability and security.

The magnitude of the additional costs from these network investments will be driven by the extent that the market resolves:

- the location of new renewable energy resources;
- being able to commercialise these new renewable resources;
- the rate of retirement of existing thermal power stations, particularly, coal.

At this stage, it is difficult to estimate the likely additional costs that consumers are expected to pay for these additional network assets to support renewable and remote renewable generation with some market commentators suggesting at a minimum in the short term the volatility of intermittent renewable generation, such as wind, would permanently add around \$5/MWh.<sup>9</sup> It is also important to recognise that the current market design around critical network services, such as inertia, system stability and control, are provided for "free" predominately by the large thermal (coal) power stations.<sup>10</sup>

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<sup>8</sup> AEMO Electricity Statement of Opportunities: page 131

<sup>9</sup> Outhred, Hugh & Stuart Thorncraft, (January 2010), "Integrating Non-Storage Renewable Energy into Australian Electricity Industry", Hawaii International Conference on System Sciences.

<sup>10</sup> When power stations connect to a network it must set out its technical performance envelope, and agree to meet certain Generator Performance Standards (GPS).



Generators are required to agree to a suite of generation performance standards (GPS), which effectively represent the technical envelope of the power station units across a range of service standards. Thermal power stations provide significant amounts of network support type services through these GPS settings, and are not directly compensated for these services through a transparent mechanism that reveals the true costs of these services. Renewable generation, as a generation technology, does not provide these services. It is reasonable to assume consumers will still demand that electricity be provided to these same quality settings, and that if future renewable generation can not supply then ultimately consumers will need to "pay" for the provision of these services.

Until there is some clarity around the key policy parameters it is clear that any Transmission Framework which included a 'special' arrangement to facilitate remote renewable generation connection would have a higher total system cost of supply than a Transmission Framework that did not. AEL maintains that despite the uncertainty surrounding variables the Commission has failed to even conceptually present how, with special arrangements for remote renewable generation, the Transmission Framework would at least meet this element of the NEO.

Importantly, the NEM, with the current Transmission Framework, has a long standing history of investment in generation having delivered approximately \$18 billion and 12,100MW of new capacity since market start. In order to connect this generation there has been significant investment in the network made by NSPs over the same period, either through the regulatory frameworks under the auspice of the Regulatory Test (now the RIT-T) or through direct participant funded augmentation of the network. A final decision was made by the Australian Energy Regulator (AER) regarding the augmentation to the RIT-T in June 2010 with the RIT-T commencing on 1 August 2010. It is reasonable to consider this framework has not been in place long enough to be robustly tested in response to such connection issues.

Despite this history the introduction of a SENE Rule change implies a response to a 'market failure' which has been identified within the current framework. AEL suggests that the Commission seems to be positing that the potential weakness in the current Transmission Framework may be that the RIT-T and the NEO would not allow transmission network to be built to accommodate 'unreliable' new generation as connecting this form of generation may detract from the non-financial or economic aspects of the NEO.

## Section 2: Options Assessment

In this section AEL have looked to address the specific design features of each Option identified by the AEMC.

In its submission to the AEMCs Consultation Paper AEL noted conditional support of the Network Extension for Remote Generation (NERG) proposal as part of the AEMCs final report into their Review of Energy Market Frameworks in Light of Climate Change Policies. This support was conditional on a Rule change proposal that; adequately address additional congestion risk on the shared network, does not create new or special rights for SENE connected generators which were otherwise unavailable to those connected to the shared network and was technology neutral.

Assessing the Options broadly AEL remains convinced the AEMC has not completed an adequate assessment of the impacts of SENE mechanism on the shared network nor has it demonstrated the SENE mechanism effectiveness at improving the current framework.

Despite remaining unconvinced of the need for the SENE Rule change, AEL recognise the interest in pursuing the introduction of this Rule change and subsequently broadly support the adoption of the alternative Option 4 framework as outlined by the National Generators Forum (NGF) in their submission to the AEMCs Options Paper. AEL however considers adopting the proposed shared network access arrangements as more appropriate in ensuring a level playing field for all market participants connected to the national electricity system.

Table 1 below provides a summary of the NGFs Alternative Option 4.

Design Feature	
Trigger	Generator connection enquiry
Investment Test	Signed Connection Agreement RIT-T or equivalent applied to incremental capacity
Cost Allocation and Charging	Each generator to pay stand alone cost whilst SENE remains under-subscribed Charge may be annual or upfront Possible re-imburement of relevant costs upon full subscription Customers to fund shortfall until fully subscribed
Access Provisions	Mandated compensation arrangements with stand alone cost entitlement Provisions for private agreements and compensation
Regulatory Oversight	AER to hold power to veto RIT-T AEMO to review NSP forecasts

**Table 1: NGF Alternative Option 4**

### **Option 1: SENE with a cost threshold trigger**

*Trigger:* A SENE framework based upon Option 1 provides for a central planning process in the development of SENE zones to be administered by the AEMO. In a competitive market the ability to accurately predict the number of projects that progress from proposed to completion is an almost impossible task. Historically the NEM has displayed a low conversion rate of 35% across all

technology and fuel types in moving projects from the proposed stage to completion.<sup>11</sup> AEL does not consider AEMO to have the appropriate commercial knowledge and expertise to accurately consider the likelihood of proposed generation investment with any certainty and subsequently do not have the ability to identify possible SENE zones of interest to participants operating in a competitive market;

- *Investment Test:* The inclusion of an investment test based upon coverage of an arbitrary percentage of the overall capital cost of the SENE is unacceptable grounds for end users to underwrite the SENE investment. This potentially exposes end users to stranded asset risk brought on by over sizing a SENE's capacity or generators not connecting, despite the additional roles undertaken by the AEMO, AER and NSPs. This risk is further emphasised where the Option fails to incorporate the adoption of an appropriate economic test or the RIT-T.
- *Cost Allocation and Charging:* AEL does not support the introduction of average (variable) cost charging for those generators connecting to the SENE, specifically where the capacity of a SENE remains under-subscribed. AEL considers in these instances it is appropriate generators face their stand alone connection charge as the introduction of average cost pricing potentially distorts the locational price signals faced by market participants in doing so creating a situation where market participants otherwise considered un-economical are able to connect to the market.
- *Access Provisions:* Option 1 establishes an uneven playing field between generators connected to the shared network and those connected to the SENE through the introduction of financial or property rights to the transmission network. This is likely to distort the locational decisions faced by new generators;

Furthermore AEL considers incumbents face un-manageable congestion risk on the shared network through the connection of a SENE. Market participants make investment decisions facing the current locational signals provided by the market. Once an investment decision has been made the costs incurred largely become sunk costs. The AEMC have noted that whilst NSPs are required to consider and publish the impact of the SENE on the existing network they however are not required to undertake any augmentation to relieve possible congestion.<sup>12</sup> AEL argues the current framework, including the SENE rule change proposal, does not adequately address this risk. It could be argued where those market participants connecting to a SENE are required to fund an augmentation of the shared network they potentially would have greater incentive to connect directly to the network itself as opposed to the SENE.

- *Regulatory Oversight:* AEL is concerned Option 1 provides for regulatory creep of the powers of the AER where the AER is required to determine the compensation paid to participants. Moreover AEL considers the proposed framework does not incorporate easily into the existing framework creating a virtual sub-section of the NER specifically devoted to SENE.

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<sup>11</sup> Simshauser (2010): Capital Adequacy, ETS and Investment Uncertainty in the Australian Power Market, Electricity Journal, Vol 23. No. 1 page 76

<sup>12</sup> AEMC SENE Options Paper: page 62

For these reasons above AEL does not support the adoption of Option 1 as a proposed SENE framework.

**Option 2: SENE with economic test and no capacity rights**

- *Trigger:* See Option 1.
- *Investment Test:* See Option 1. Whilst an improvement on Option 1 through the inclusion of an economic test, AEL does not support the introduction of a separate economic test specific to SENEs as this test does not take into account the potential merits of any augmentation of the shared network and therefore artificially accounts for the potential congestion risk/cost to those connected to the shared network over-stating or inflating a SENE's benefit to the network;
- *Cost Allocation and Charging:* See Option 1.
- *Access Provisions:* AEL considers adopting the proposed shared network access arrangements appropriate in ensuring a level playing field for all market participants connected to the national electricity system. Although those market participants who wish to connect to the SENE are likely to face significant asymmetric information risk as they negotiate the terms and conditions of their connection with NSP.
- *Regulatory Oversight:* See Option 1.

Furthermore Option 2 adopts a market driven model approach to forecasting generation entry. Whilst AEL understands this approach has been adopted to address a need to accurately account for future generation entry, the ability to accurately forecast generation entry is an almost impossible task. Moreover this approach is inconsistent with the current planning framework, subsequently not taking into account the total value of all costs and benefits as provided under a least cost market modelling approach.

For these reasons above AEL does not support the adoption of Option 2 as a proposed SENE framework.

**Option 3: Incremental approach to SENEs**

- *Trigger:* Option 3 presents an improved approach when compared to the AEMCs original proposal and subsequent revised Options 1 and 2. In particular AEL considers a generator connection enquiry and the generator/NSP decision to proceed with an assessment of the potential SENE zone as an appropriate trigger for consideration of a SENE. In adopting this approach, Option 3 appears more aligned with the current framework and subsequently avoids moving to a central planning process.
- *Investment Test:* AEL considers a signed connection agreement as the appropriate investment test for a SENE mechanism.
- *Cost Allocation and Charging:* As mentioned previously AEL supports charging generators at their stand alone cost where the SENE remains under-subscribed. AEL does not support the need for customers to underwrite investment in incremental capacity for the network for the life of the asset.

AEL is concerned Option 3 does not enable an incumbent generator to appropriately account for charges to be rebated as levied upon future generators as these charges would be directly negotiated with the NSP by individual market participants. It is unlikely generators would be willing to share this information as suggested through a connection agreement between the NSP and connecting generators without further agreements put in place between generators.

- *Access Provisions:* AEL considers adopting the proposed shared network access arrangements appropriate in ensuring a level playing field for all market participants connected to the national electricity system.
- *Regulatory Oversight:* AEL considers the proposed level of Regulatory Oversight requiring the AER to review the application of the RIT-T (or equivalent economic efficiency test) as appropriate.

Despite being an improved framework when compared to Options 1 and 2, AEL does not support the adoption of Option 3 as a proposed SENE framework.

***Option 4: Incremental approach with generators bearing costs***

Despite remaining unconvinced of the need for the SENE Rule change, AEL recognise the interest in pursuing the introduction of this Rule change and subsequently support the adoption of the alternative Option 4 framework as outlined by the National Generators Forum (NGF) in their submission to the AEMCs Options Paper. AEL however considers adopting the proposed shared network access arrangements as more appropriate in ensuring a level playing field for all market participants connected to the national electricity system.

- *Trigger:* See Option 3.
- *Investment Test:* See Option 3.
- *Cost Allocation and Charging:* AEL considers the reduction in charges to be apportioned to customers as an appropriate means of recovering the cost of the SENE. Despite this reduction, customers remain exposed to stranded asset risk until a time that the SENE has been full subscribed.
- *Access Provisions:* See Option 3
- *Regulatory Oversight:* See Option 3

***Option 5: SENE as shared network with generator charge***

- *Trigger:* See Option 3.
- *Investment Test:* AEL considers a signed connection agreement as the appropriate investment test for a SENE mechanism. However should the entire SENE be subject to an economic test or RIT-T assessment this may no longer be required.

*Cost Allocation and Charging:* AEL does not support the introduction of a 'new' prescribed transmission service and subsequent charging regime payable by generators. The introduction of a new prescribed transmission service may only add to the inconsistency in the interpretation and application of service provisions under the NER. This has resulted in market participants having to negotiate their way through differing NSP processes when seeking connection to the network. AEL considers an introduction of a new prescribed transmission service would require explicit definition and interpretation of all services across the system.

- *Access Provisions:* See Option 3
- *Regulatory Oversight:* See Option 3