

29 September 2010

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

By email: aemc@aemc.gov.au

Dear Mr Pierce

**Submission: Transmission Frameworks Review Issues Paper
[“EPR0019”]**

Vestas welcomes the opportunity to make a submission in response to the AEMC’s Issues Paper on the Transmission Frameworks Review (the **Issues Paper**), directed by the Ministerial Council on Energy (**MCE**).

Vestas is the world’s leading supplier of wind power solutions, having installed more than 40,000 wind turbines across the globe. In Australia we have been responsible for the supply of more than half of the wind energy capacity to date.

Vestas previously participated in the AEMC’s Review of Energy Market Frameworks in light of Climate Change Policies and the consultation process around the MCE’s recently proposed SENE Rule change, so many of our comments on this proposed Rule change may seem familiar to the reader.

Vestas is also a member of the Clean Energy Council (**CEC**), and for detailed comments in response to the questions on pages vi and vii of the Issues Paper we would direct you to the CEC submission.

The Issues Paper is a worthy and timely document, but it falls short of properly addressing the key issues that face the National Electricity Market (**NEM**) now and in the future with respect to transmission frameworks.

This shortfall is primarily due to the context within which the AEMC is conducting the Transmission Frameworks Review (the **Review**). Part of this is the looming change to the mix of generation in the NEM as a result of Australian Government policies and

legislation including the 20% Renewable Energy Target (**20% RET**) and proposals for a price on carbon in the electricity sector.

However, consideration of these matters is constrained by the National Electricity Objective (**NEO**), set out in section 7 of the National Electricity Law (**NEL**).

The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to-

- (a) price, quality, safety, reliability and security of supply of electricity; and*
- (b) the reliability, safety and security of the national electricity system.”*

The NEO does not contain any references to the 20% RET, greenhouse emissions from the electricity sector, or any other kind of environmental matter. The focus of the NEO is firmly on the long term interests of electricity consumers, but only in the context of price, quality, safety, reliability and security of supply.

This in turn effectively excludes the AEMC from considering, for example, what kind of transmission framework reforms would be required in order to facilitate the achievement of the 20% RET by the year 2020. Page 4 of the Issues Paper explains this further:

*The AEMC is required to have regard to the National Electricity Objective (NEO) in every review it undertakes and every change to the National Electricity Rules (NER or Rules) that it assesses. **The NEO will therefore form the overarching principle** for the assessment framework used to evaluate potential transmission reforms.*

As the Australian Energy Market Operator (**AEMO**) explains in its *Introduction to Australia's National Electricity Market*, NEM institutions like the AEMO and AEMC are prevented by the NEO from giving effect to policies or legislation such as the 20% RET that favour one kind of fuel source (renewable energy) over others:

AEMO's charter focuses specifically on efficiency, security and reliability of power supply, and excludes favouring one fuel source over any other. Consequently, AEMO has neither the power nor the authority to make decisions based on considerations of sustainability and balance in resource management.

So, while the AEMC and the AEMO are able to take note of policies and legislation such as the 20% RET as a notable development and “the driving force behind new investment in renewable generation” (the wording used in the recent AEMC consultation paper on the SENE Rule change proposal), the AEMC cannot propose any transmission framework reforms in this current review if they would help successfully deliver the 20% RET but work in any way against the NEO.

That fundamental conflict means that the current Review being conducted by the AEMC is unlikely to propose reforms that will ensure Australia lifts its proportion of electricity generation from renewable sources from the current level of approximately 8% to the required 20% by the year 2020, as set out in the Australian Government's 20% RET policy and legislation.

Moreover, there seems to be little in the Terms of Reference from the MCE that would resolve this issue. The MCE has also directed the AEMC Review to consider some further principles agreed by the Council of Australian Governments (**COAG**), but these do not contain any reference to the 20% RET and the goal of seeing this policy achieved.

The 20% RET policy and legislation unashamedly gives primacy to renewable energy generation. But the NEL (and in particular the NEO) takes a completely neutral stance.

Unless and until the Australian Parliament amends the NEL to include some weight, relevance or value ascribed to the achievement of Government policies such as the 20% RET, then NEM agencies like the AEMC, AEMO and the AER have got their hands tied.

Those agencies are bound to make their decisions and carry out their work in line with the NEO, not with the 20% RET. Where there is a conflict between government policy and the NEO, this also means they are duty bound to ignore government policies that is inconsistent in any way with the NEO – especially something like the 20% RET that favour one fuel source (renewable energy) over another.

Agencies like the AEMC and the AEMO are well aware that the Government has policies in place to change the electricity generation mix and increase the level of renewable energy. Their publications in 2009 and 2010 make this clear.

But the NEO in its current form compels these agencies to ignore policies like the 20% RET in their decision-making processes.

This is not the fault of the AEMC or of the AEMO, nor is it something those agencies are able to address.

If the Australian Government wants to achieve its target of 20% renewable energy by the year 2020, it cannot expect agencies like the AEMC, AEMO and the AER to play any part in this effort if it would require any steps to be taken that the NEO would not otherwise compel.

Instead, Vestas considers that the Australian Government should amend the NEL and other relevant energy legislation to include a new NEO, one that perhaps addresses matters such as greenhouse emissions from the energy sector and the promotion of renewable energy.



Vestas Australian Wind Technology Pty Ltd

Vestas staff would be pleased to meet with AEMC staff to discuss our submission and answer any other questions they may have. Please contact the writer on (03) 8698 7300 to do so.

Yours sincerely,

[signed]

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