

Strategic Priorities for Energy Market Development

Efficient and timely investment

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AEMC's identified strategic priorities

- A predictable regulatory and market environment for rewarding economically efficient investment
- Building the capability and capturing the value of flexible demand
- Ensuring the transmission framework delivers efficient and timely transmission investment

All are important and are linked

The entire market is more dynamic and volatile

- More options for supply and demand

Priority 3 is critical, both for connection and system upgrades

Efficient and timely investment needs:

- A balanced and stable investment climate
- Robust, simple and quick connection processes
- Effective investment decision making processes
- A constructive approach to Distributed Energy Resources

**Without these,
service
outcomes will
lag demand**

For new generators seeking connection:

- **Price signals**
- **Consistent and simple process**
- **Rapid turn around to match generator development**
- **Certainty regarding service level and future rights**

For existing customers (regulated)

- **Certainty that augmentation will occur to maintain network capacity**
- **Minimise cost through:**
 - planning so only necessary augmentation is carried out
 - project cost discipline

For new sources of supply

- **Ensure that DER is adopted as quickly as possible**
- **Particularly as an alternative for network augmentation**

Original transmission framework premised on:

- Network owners earning revenue through network growth
- Regulated returns encouraging investment
- Checks and balances to limit over-investment
- Transmission owners with no internal cost disciplines

Intended to be achieved through:

- An economic regulator reviewing proposed investment
- The RIT to ensure economic case publicly tested
- Separation of planning from ownership (in Victoria)
- Contestability to provide competition in project costs and ownership (in Victoria)

Scope for 'greater political pressure' with rising energy prices

- **May translate into even more negative pressure on investment by regulated businesses**
- **Regulators delinking revenues and costs impose cash flow risk**

Even modest uncertainty on returns imposes risk to network investment

- **Fine balance between investment incentives and regulatory downsides given the long time period over which investment is recovered**
- **The financial and commercial realities faced by privately owned network businesses (including credit ratings and financial reporting)**

Private network owners are increasingly reluctant investors

- **Do we need a clear obligation to consider funding ability as a cross check in Price Reviews?**

Different arrangements between States for connection

- Contributions to the Frameworks Review have argued for a consistent transmission structure across the NEM
- Time consuming and expensive negotiations

The contract framework and tripartite connections arrangements are complex and costly in Victoria

- Multiple parties involved

Need for efficient and agile processes

- Prevent efficient and timely investment
- Frustrate willing participants

Diverse State approaches risk poor locational decisions

RIT is an effective process but planning & investment decisions need to:

- **Appropriately reflect reliability and risk (cost of under investment)**
- **Incorporate changing nature of industry through DER**

Real risk of under investment

- **Regulators (and planners in Victoria) seek to moderate investment**
- **Planning lies with a number of parties – coordination is difficult**
- **Owners do not necessarily have incentives**
- **Investment tension does not exist**
- **Local Planning approval processes inhibiting economic decisions**

Contestability

- **Shallow market**
- **Concept has merit but not achieving practical outcomes**

Electricity market will extend to incorporate much more distributed supply

- Implications for planning and investment decision making regimes
- How do we have a constructive process as we address genuine network challenges?
- DER does not only mean at residential level but the possibility of development by NSPs as an alternative to network

Expectation of dynamic pricing and price elasticity

Role and boundary of regulation/competition

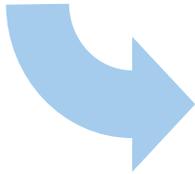
DER critical to meet peak demand/ energy price challenge

1

Expect continuing pressure on reducing investment in new transmission

2

Explode the myth – transmission owners do not have a strong incentive to invest



Therefore potential for systematic under investment

3

There is a widespread view that the Victorian transmission planning arrangements should be implemented nationally



There are some practical problems that would need to be reviewed before this can be done