

21 May 2010

Mr Tom Leuner
General Manager
Markets
Australian Energy Regulator
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Dear Mr Leuner

RE: DRAFT RIT-T and APPLICATION GUIDELINES

Alinta Energy Limited (AEL) values the opportunity to provide comment to the Australian Energy Regulator's (AER) open consultation into the Regulatory Investment Test for Transmission (RIT-T) and its application guidelines. The RIT-T is intended to identify the credible option that maximises the present value of net economic benefit to all those who consume and transport electricity in the market as defined under clause 5.6.5B of the National Electricity Rules (NER).

AEL broadly agree in principle with the RIT-T and application guideline as drafted and consider its application in the planning and development of the transmission network vital in ensuring optimal investment moving forward. Specifically, AEL supports the inclusion of worked examples within the application guidelines as these provide concrete direction on the manner in which NSPs should apply the RIT-T when considering investment responses to ensure the reliable and secure supply of electricity at least cost.

Despite these improvements, AEL considers a residual risk to the successful implementation of the AER's RIT-T remains in the manner in which NSPs apply the guidelines. Our recent experience with the application of the existing RIT-T has been useful in demonstrating that NSPs still have substantial discretion in how they apply the RIT-T, which by and large can have material outcomes on the options considered under the RIT-T. More specifically, AEL have noted the following issues in the application of the RIT-T.

Timing and process deadline

AEL are concerned that the current timeframe at times proposed (and undertaken) by NSPs not only fails to meet the minimum requirements of the RIT-T with respect to consultation, but in doing so fails to provide interested parties with the appropriate timeframe to present credible options for consideration. By reducing the timeframe for consideration a NSP can effectively eliminate the opportunity for consideration of non-network solutions. AEL considers it imperative that NSPs follow a prescribed minimum timeframe (12 weeks), with the option to extend this period with regard to, "*the scale and complexity of the proposed investment*", if and when required. AEL is of the belief this will enable the market to achieve an optimal solution, in doing so maximising the present value of net economic benefits to all within the market.

¹ Australian Energy Regulator, November 2007, Final Decision Regulatory Test Version 3 & Application Guidelines, page 26.

Burden of proof

The opportunity to contribute a non-network solution to a proposed investment has the ability to materially impact the economics of future investment options under consideration by non-network proponents. In particular, AEL notes the opportunity to earn an annuity income from a NSP as a result of deferring the timing of a network investment options would significantly enhance the financial viability of proposed generation projects.

AEL notes the current RIT and proposed RIT-T requires a NSPs at the RFI stage to seek submissions relating to 'credible options', as opposed to a "committed project" only submission. A credible option is commercially and technically feasible, and able to be delivered on time. The information requirements for the committed projects is clearly more substantive requiring that the any alternative option to the network solution be well-advanced or actually in operation.

Further to this, AEL is of the belief that by seeking a level of demonstration limited in scope, without the disclosure of similar information by the TNSP, could be seen as being beyond the requirements of the rules.

AEL maintains that information revelation represents the most substantive benefit from the RIT-T. The ability for a NSP to limit the scope of responses to a RFI erodes this benefit and skews the provision of information in a manner that further limits the opportunity to non-network proponents.

In this regard, AEL considers that there would be value to the market by the AER requiring TNSPs to:

- comply with the NER and RIT-T requirements for non-network options in terms of presenting information on network options;
- be provided with guidance by the AER in terms of minimum disclosure requirements for network solutions.

Information asymmetry

Notwithstanding AEL's positions outlined above, AEL note the current process provided under the RIT-T application guidelines does not require a NSP to provide detailed cost information of a proposed network solution within the RFI. Without this information participants are unable to determine the likely earnings potential a non-network option could capture by technically meeting the identified need but at a lower cost to the network solution. The provision of such information is critical when reassessing the commercial viability of an existing generation project (with the TNSP revenues) potentially impacting its timing and scale.

AEL suggests that the AER explore options to amend the RIT-T guidelines to prescribe the level of detail that TNSPs must release on the network option within the RFI, to allow participants to consider the commercial viability of non-network options.

Load / demand risk and Asset stranding

Where a proposed investment presents inherent size and timing risks, such as dependence upon final investment decisions by large non-domestic customers, such as mining options, AEL would propose as a further risk mitigation technique be amendment to the RIT-T guidelines to require that a NSP:

- provide further detail around the network solutions considered to be the best option, including options around staging and timings of network investment in line with those risks identified;
- provide non-network proponents with sufficient time to allow further consideration of options in light of this information.

AEL maintains that requesting this information is consistent with the AER's RIT-T and the NER.

Should the AER wish to discuss this submission further please give James Reynolds, National Manager Regulation and Market Development, a call on 07 3011 7646 or 0438 668 680.

Yours sincerely

A handwritten signature in blue ink, appearing to read "S Turner".

Scott Turner
Executive General Manager
Energy Markets