Major Employers Group

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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

19 January 2011

Dear Sir/ Madam

Re: Inter-regional transmission charging (Project no. ERC0106)

The Major Employers' Group (MEG) represents a group of the largest employers in Tasmania. Some of these companies are highly energy intensive and all are highly trade exposed as they operate in global competitive markets. In recent times these companies have experienced substantial increases in network charges (which are a substantially higher proportion of our energy costs than for most customers), will face increasing cost pressures due to the enhanced MRET becoming operational from the 1st January 2011 and will face further pricing pressure and energy risks as climate policy develops. In relation to the proposed rule change, the MEG has considered this proposal and is concerned by the rationale for implementation and its impacts. Whilst on the face of it, the rule appears to meet a basic fairness principle, a deeper assessment raises concerns that the rule has not been adequately justified and may have adverse and inequitable consequences. The following highlights the key areas of concern.

1. Efficiency and price signal

The rule change is proposed on the grounds that it will achieve greater market efficiency through a more cost-reflective price signal. However:

- It is asserted that transmission companies currently under-invest in assets used for export. However, the rule will not provide transmission companies with any new rights to built assets or increase the revenue they can collect for allowable assets, so the argument why it will cause them to change behaviour is not made. Is it the assertion that transmission companies currently under-invest in assets used for export because they believe it is unfair to build them given the "wrong" set of customers will pay for them? This seems an unlikely motivator of commercial behaviour.

- Given the price reduction/increase will only be experienced by customers, who neither invest in transmission assets nor bid generation, the argument that a price signal will motivate a change in behaviour has not been proven in general.

- Given the rule change would result in no increase in benefits (transmission costs are merely reallocated with lower prices to some customers being completely offset by higher prices to others), but would result in administrative costs, the claim of increased efficiency has not been proven.

2. Equity

The primary justification for the rule change appears to be on the grounds of fairness. While improving fairness is noble, it cannot automatically be presumed that the proposed rule change will result in greater fairness overall.

It is not fair to change the rules on existing customers, generally who cannot mitigate the proposed new charge (the same arguments have been used successfully by generators concerning why they should not be charged TUoS).

In a region like Tasmania, Tasmanian customers already pay a disproportionate contribution towards the unregulated interconnector (Basslink), through the Basslink facility fee that is indirectly applied to the local energy price. It is unfair to expect Tasmanian users to further contribute towards Victorian transmission costs when Victorians are already a net beneficiary and effectively get a 'free-ride' on Basslink interconnector costs.

Changes can have unintended consequences, which deserve thorough consideration to avoid the risk of a worse outcome.

Customers in Tasmania that support imports into the region, by providing interruption services for the inter-connector such as frequency control system protection, will have a disincentive to continue providing these services. These customers are large industrials, for whom transmission charges are a material portion of electricity costs. Current transmission charges for large industrial loads are substantial and the trajectory of charges is already a major issue for these export exposed businesses, which cannot pass-through these additional charges. It would be to the detriment to the market to send a price signal that created such a perverse incentive.

If the current environment does indeed drive under-investment, even in the absence of any commercial driver for transmission companies to under-invest, the rule change may drive over-investment (or an unbalanced focus on exporting assets). Most transmission companies remain in the ownership of the state governments. Such companies may feel encouraged to focus more on investments that raise revenue from customers outside their region, where they can grow business and dividends without impacting the costs faced by the local electorate.

3. Materiality and Relevance

It is argued that the charges will be a very small proportion of the costs to small customers. It is also the case that broader reviews of electricity frameworks are currently taking place.

If the charge is not material, then why complicate the market by introducing it? Even if the rule change created a price signal, which is not proven, a very small signal would not be effective in incentivising behavioural change.

Furthermore, this proposed rule change should be considered within the context of the overall package of framework reforms, which are not yet fully developed.

4. Conclusions

In conclusion, the MEG does not consider that there is a sufficiently strong case for the implementation of a load export charge at this time. The MEG recommends delaying the rule change to allow a thorough cost-benefit analysis to be undertaken to establish whether this proposed rule change achieves the objectives of the NER and is aligned with other market framework reforms initiated by the MCE.

In Tasmania the largest generator has market power and has exclusive usage arrangements for the interconnector, and makes import and export decisions based on its own financial considerations. This, in other than drought situations, usually means exporting expensive peak power and importing cheap off-peak power, even if there is sufficient capacity to supply all the load internally. If this rule change is enacted, customers may be penalised for the generator's financial gain.

We are happy to discuss further the issues outlined in the above.

Yours faithfully

Terry Long
Chairman
MEG