Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Dear Mr Pierce,

AEMC Review – ERC 0117 Dual Marginal Loss Factors

We appreciate being able to make a submissions on the matter of Dual Marginal Loss Factors and we thank the AEMC for granting an extension of time to enable Norske Skog Paper Mills (Australia) Ltd to make this submission.

We have submitted both a confidential submission and this public submission. This public submission has omitted commercially sensitive information to enable publication by the AEMC.

Norske Skog Paper Mills (Australia) Ltd is Australia's only manufacturer of newsprint. Norske Skog Albury Mill has one paper machine with a capacity of approximately 275,000 tonnes per annum.

The Albury Mill supplies all of its output into the Australian Newsprint market, supplying 40% of the Australian newsprint market under medium term contracts. Even though we are a large newsprint market player, the newsprint industry is an internationally competitive, price-taking market. We do not have the ability to pass cost increases through to our customers.

We consume approximately 730,000 MWh per annum referenced to the regional node.

For the reasons set out in this letter, Norske Skog's Albury Mill supports the changes proposed by AEMO.

The marginal loss factors used in the wholesale market have a number of impacts on the prices we pay for electricity. Firstly, adjustments are made to the wholesale prices at our connection points referenced to the regional node. This year's increase in our marginal loss factor by 1.5% increased our energy cost by several hundred thousand dollars. Secondly, adjustments are made each year to the transmission charges paid by our company to reflect the average intra-regional settlement residues accrued to AEMO as a result of these loss factors. TransGrid has advised that NSW transmission prices this year have increased by around 7%, also increasing our costs by several hundred thousand dollars, to account for large swings in intra-regional settlement residues.

The Albury Mill's on-going viability is greatly influenced by our ability to control costs. It is vital for these factors to be set as accurately and as predictably as possible from year to year as the cost of poorly set loss factors is material to our business.

Having reviewed the AEMO proposal we consider it to contribute to these requirements and, therefore, the achievement of the National Electricity Objective.

AEMO clearly demonstrates the improvement in the accuracy of marginal loss factors in Table 1 on page 6 of its proposal (repeated for ease of reference in Attachment 1). This table shows that under the arrangements which have prevailed for the past three years the use of a single time weighted average marginal loss factor has resulted in generation being subjected to loss factors greater than unity. As we understand it this effectively misallocates revenues between market participants and

Norske Skog Paper Mills (Australia) Limited

117 R.W. Henry Drive	Phone: + 61 2 6058 3111
Ettamogah via Albury	
Private Bag, Lavington	Fax: + 61 2 6058 3080
NSW 2641	ABN: 84 009 477 132
Australia	

results in inefficient real time dispatch. That is, the lowest priced generators are not always dispatched before higher priced generators in the wholesale market.

However, the same table also shows that AEMO's proposal for a separate marginal loss factor to apply to these generators results in a loss factor less than unity, which is clearly more accurate. That is, the AEMO proposal produces more efficient wholesale market pricing and, therefore enhances the achievement of the National Electricity Objective. The more efficient dispatch that results from this proposal is clearly in the long term interests of consumers of electricity.
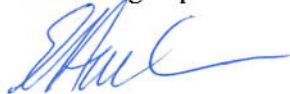
The impact on settlement residues is illustrated in Table 2 of AEMO's submission with reference to Lower Tumut Power station. The adoption of more accurate marginal loss factors, along the lines proposed by AEMO, would appear to materially affect the level of intra-regional settlement residues returned to customers. In the Lower Tumut Power Station example used by AEMO, a $6.8 million adjustment results from application of dual marginal loss factors to just one connection point. We anticipate this would have reduced the previously mentioned increased announced by TransGrid for this year.

The AEMC guidance paper correctly points out another distortion resulting from inaccurate intra-regional settlement residue accrual. This paper notes that intra-regional residues cause excessive payments for energy by specific customers and surplus residues are returned to all customers. This is a further price distortion arising from inaccurate marginal loss factors. The AEMO proposal appears to go some way towards improving accuracy and, therefore, minimising this distortion.

Finally, AEMO's proposal appears to be 'proportionate' to the problem to be solved. That is it is no more complex than necessary to remove most of the inaccuracy currently involved in setting marginal loss factors.

If you have any questions or require any clarification regarding our submission please contact Mr Michael Machin, Business Development Manager on 02)6058 3089 or by email Michael.machin@norskeskog.com .

Yours sincerely
Norske Skog Paper Mills (Australia) Ltd.

Ernie Hacker
General Manager

Norske Skog

Attachment 1

	2008-09	2009-10	2010-11
Single volume weighted average MLF for both energy generation and consumption	5.8319	1.5660	2.4874
Single time weighted average MLF for both energy generation and consumption	1.0197	1.0151	1.0092
Separate volume weighted average MLF for energy generation	0.9762	0.9850	0.9774
Separate volume weighted average MLF for energy consumption	1.0428	1.0373	1.0242
Energy Balance (% of energy generated)[7]	3	10	3