



REPORT TO THE ADVOCACY PANEL 'NEM SPECIALIST' STAFF FUNDED POSITION ACTIVITIES FOR THE PERIOD DECEMBER 2007 TO MARCH 2008

Introduction

The Panel provides funding for a staff position within the Energy Users Association of Australia (EUAA) and the funding Agreements provides for quarterly reports on activities undertaken by the position. This report covers the period December 2007 to March 2008.

At the beginning of this period the former occupant of the position retired and the EUAA was forced to put in place temporary arrangements for the position to cover the period January to June 2008 (the period of funding approved by the Panel) as it was felt that appointment of a person to the position would be difficult given that only a short (six month) period of funding was approved. EUAA took steps to try to fill the position temporarily, e.g. through a secondment, but this proved unsuccessful, mainly due to tight conditions in the market for professionals.

The temporary arrangements put in place for the period since the former occupant left until end June is as follows:

- Placing two internal staff on higher duties on account of the higher level work they need to undertake to help overcome the vacancy; and
- Making use of external consultants for specific work that would otherwise have been undertaken by the occupant.

The Panel has previously been made aware of the specific nature of these arrangements.

Work Undertaken in the Period

During the period a range of NEM related advocacy has been undertaken via the temporary arrangement outlined above.

Work undertaken by EUAA staff is set out in Table 1 below, whilst Table 2 shows work undertaken with the help of external consultants. Invoices from the consultants have been provided separately to the Panel, together with an invoice for the higher duties component of the internal resources. Outputs and Outcomes are described.

Copies of relevant work referred to have been appended to this report.

If the Panel has any questions about this report please contact me.

Roman Domanski
Executive Director
20 May 2008

TABLE 1: WORK BY INTERNAL STAFF

Project/Activity	Status	Outputs	Outcomes
Submission to AER re DNSP Guidelines (December 2007)	Completed	Submission to the AER. Attendance also at public forum and meetings to discuss these guidelines. EUAA members informed of latest regulatory developments.	Guidelines which will determine how the AER regulates DNSPs, including tariffs and service levels, better informed about end user impacts. Members' knowledge of important future regulatory developments improved.
Wholesale electricity prices in the NEM and related work (Dec 07 to present)	Ongoing	Updates to EUAA website, briefings to members (x2), presentations on prices (<i>Peak Power</i> in Dec 07, members meetings Dec & March, <i>Tasmanian Energy Forum (TEF)</i> March 08), input to advocacy & input to media commentary. Provided weekly information in view of continuing elevated prices in the forward market, and volatility in spot market offsetting diminished prices at the beginning of 2008. Updates relating to water storages affecting key hydro and thermal generation plant in the NEM (monthly), and reports relating to water constrained generation in general.	<ul style="list-style-type: none"> • Improved member and user knowledge and information about NEM price trends • Improved member and user knowledge and information about NEM market trends • Advocacy benefitted from inclusion of up-to-date information about prices
AER Service Target Performance Incentive Scheme for Distribution Businesses (STPIS) (January 2008)	Completed	Submission to the AER on the STPIS for the design of the scheme to apply to the NSW/ACT DB revenue reset to be undertaken by the AER in 2008/09. The STPIS will set the parameters for the service performance provided by distribution businesses	A significant outcome was to influence the shape of this scheme to ensure that end users are in receipt of sound performance from the DBs (too soon to say if this will be achieved). Members better informed about the shape of the future STPIS and how it will affect them.

Project/Activity	Status	Outputs	Outcomes
		<p>regulated by the AER. As such it will impact on the service levels provided to end users in the NEM.</p> <p>Communication to affected users about the proposed design of the STPLS scheme, achieved via EUAA Members Meetings and web site notices.</p>	<p>Submission also provided scope for advocating on behalf of members interested in developing opportunities for distributed generation.</p>
<p>High Prices in QLD and SA, and Transmission Constraints (Jan -Mar 08)</p>	<p>Completed</p>	<p>Produced Issues Papers for meeting with AER in Mar 08, Briefing to EUAA members, and presentation to <i>Tasmanian Energy Forum (TEF)</i> March 08</p>	<p>Better informed end users due to analysis of impact on prices in the NEM, contributing factors, including generator strategic behaviour and bidding at times of constraint on the interstate transmission interconnectors.</p> <p>Analysis and findings used in advocacy to Australian Energy Regulator, raising concerns about the efficacy of the Rules governing generator bidding 'in good faith' and providing discipline on market power, investigations of actions by market participants and the application and form of the current Regulatory Test in ensuring optimal transmission capacity. These factors had a significant impact on pool prices and forward prices in early 2008. Outcome sought is to ensure that these aspects of the NEM are not hindering the benefits that end users get from the market (AER is still investigating).</p>
<p>EUAA Member Survey of High Prices in the NEM (Jan 08 to present)</p>	<p>Ongoing (survey not yet complete)</p>	<p>Presentation to EUAA members meeting (March), informing market and end users more generally & media comment</p>	<p>Used results so far to advocate on impacts on users and the economy more broadly in the media, and raise the profile of the issue. Outcome has been to raise the profile of the impact of high prices on end users.</p>

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<p>Meetings & discussions with Energex Networks & Ergon Energy to discuss Form of Price Control Issues (March 2008)</p>	<p>Completed. AER to release Issues Paper on Qld DBs in 1st half FY 0809</p>	<p>Meetings with Energex & Ergon to discuss design and classification of tariff structure</p>	<p>Improve understanding of the proposals for services classification procedure to be adopted by both networks for the forthcoming regulatory reset. They differ between the two networks and will impact EUAA members in terms of the distribution tariffs they pay in the next regulatory period.</p>
			<p>Convey impact of proposals to EUAA members, who include the largest energy users in Qld, via web site and Members Meetings so that they are aware of them and better prepared for changes.</p>
			<p>Relationship building between Ergon and the EUAA in advance of the regulatory reset to enable co-operation on issues and inputs.</p>

TABLE 2: WORK UNDERTAKEN WITH EXTERNAL CONSULTANTS

Project/Activity	Status	Outputs	Outcomes
National Transmission Planner Issues Paper (AEMC, February 2008)	Submission on Issues Paper (previously provided to the Panel). NTP process is continuing.	Detailed report / submission to the AEMC with technical assistance from MMA. Staff and consultant have attended forums/meetings on the development of the NTP.	Advocacy to influence the design and working of the NTP function to ensure it will benefit end users, e.g., improved planning and decision-making in relation to national NEM grid, efficient treatment of transmission constraints, and more timely investment in interconnectors. Information gathering on the NTP development process will also feed into other processes (e.g. the QNI assessment process post March 2008)
AEMC Rule Change Proposal on Futures Offset Arrangements in the National Electricity Market (February 2008)	Submission completed.	Submission made to the AEMC Rule Change consultation process. Darren Barlow provided support in compiling this submission.	<ul style="list-style-type: none"> Highlight lack of competition in retail sector and effect of the proposed rule change in terms of its ability to attract further retailers into the market. Ensuring financial soundness of retailers and avoidance of RoLR events <p>Also communicated important outcomes to (potentially) affected members.</p>
Weighted Average Cost of Capital (WACC) Rule Change (December 2007 - March 2008)	Background work completed. Rule Change Proposal completed and lodged with AEMC but consultation process has yet to begin. Copies of all documents separately provided to	Rule Change application now before AEMC for consideration, together with supporting technical documentation. Phillips Fox DLA Lawyers provided assistance with the drawing up of the application and Dr Martin Lally (New Zealand academic) provided supporting evidence and theoretical/empirical underpinnings.	<p>The outcomes sought are:</p> <ul style="list-style-type: none"> Amendments to the WACC parameters in the NER A lower cost of capital for transmission and distribution across all businesses regulated by the AER Lower transmission and distribution charges than would otherwise be the case. <p>The work completed for this project will also be utilised in the impending AER review of the WACC parameters (due to commence in June) and in gas pipeline regulatory resets with similar objectives to the above. Some updating and further supplementary analysis may be required.</p>

Project/Activity	Status	Outputs	Outcomes
Aurora Networks Tariff Strategy (Feb-Mar 2008)	Completed Panel)	<ul style="list-style-type: none"> • Letter to Tas Minister for Energy • Submission to Aurora • Contact with OTTER • Presentation to meeting of Tas Energy Users <p>AustElec provided expert advice to feed into the above.</p>	<p>Outcomes sought:</p> <ul style="list-style-type: none"> • Relief for users from the large tariff increases proposed (partly achieved) • Better communication by Aurora with end users of the proposed tariff changes, the reasons behind them and the path to introduction (achieved by way of Aurora presentation at the <i>Tasmanian Energy Forum</i> and detailed response to our submission) • Longer transition to higher tariffs (Aurora has now opted to phase in some of the larger tariff changes over a longer period)
TransGrid Proposed Pass Through for Network Support (To be completed in April 08)	Outstanding	<p>Submission to AER's review of proposal. Consultant (Bruce Mountain) prepared submission. EUAA resources managed project, commented on the draft and will undertake resultant advocacy.</p>	<p>Argued that the expenditure was not a legitimate pass-through expense, would represent a 16.7% increase in the allowed operating expenditure that the ACCC determined to be the efficient level of operating expenditure by TransGrid (and would raise prices in 2009-10 by 4.7% above the level allowed in the existing revenue cap). Also that proposal inconsistent with regulatory arrangements established by AER for TransGrid for the 2004-09 regulatory period. AER has released a decision approving pass through. EUAA is considering implications.</p> <p>Outcomes sought:</p> <ul style="list-style-type: none"> • Avoidance of double counting of expenditure by TransGrid • Recognition that the pass through would be contrary to sound regulatory principles (e.g. that the avoidance of capex is already being achieved) • Keep transmission charges lower than they otherwise would be

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<p>Garnaut Review – Emissions Trading Scheme Discussion Paper & other released papers (To be completed in April 08)</p>	<p>Outstanding</p>	<p>Submission to the Garnaut Review papers. Consultant (AustElec) retained to provide support with submission. EUAA staff drafted the submission and will undertake the resultant advocacy.</p> <p>EUAA has met with Prof Garnaut and his staff.</p>	<ul style="list-style-type: none"> • Support the use of DSR for network support with fair benefit sharing between TransGrid and end users <p>Provided assessment of the ETS design proposal from the perspective of end users in the NEM, in particular, aspects relating to permit issuing, addressing trade exposed emissions intensive energy users, price ceilings on permits, borrowing and hoarding of permits, setting emissions reduction trajectories and some comments on interaction of the scheme with other policy measures such as the Mandatory Renewable Energy Target, demand management and energy efficiency. Submission is also being used as background to other ETS advocacy, e.g. Wilkins Review, DCC Industry Roundtable, meetings.</p> <p>Outcomes sought include:</p> <ul style="list-style-type: none"> • ETS scheme design that takes end user impacts fully into account • Maximum coverage • Efficient permit allocation • ‘Compensation’ for TEEIs