

**REPORT TO THE ADVOCACY PANEL
'NEM SPECIALIST' STAFF FUNDED POSITION
ACTIVITIES FOR THE PERIOD APRIL 2008 TO JUNE 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 April to June 2008.

As mentioned in our last report, temporary arrangements have been put in place for the time being pending the appointment of a new person to the position. These arrangements have been consolidated somewhat since the last report with Mr Bruce Mountain, Carbon Market Economics, having been retained as a consultant for the time being.

Meanwhile, with the signing of a new funding agreement with the Panel, we have commenced action to fill the position.

Work Undertaken in the Period

During the period a range of NEM related advocacy has been undertaken via the arrangements 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
30 June 2008

TABLE 1: WORK BY INTERNAL STAFF

Project/Activity	Status	Outputs	Outcomes
Wholesale electricity prices in the NEM and related work (Dec 07 to present)	Ongoing	<p>Updates to EUAA website, briefings to members (x2), presentations on prices (April and June Members Meetings in Brisbane & Melbourne), input to advocacy & input to media commentary.</p> <p>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.</p>	<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
High Prices in QLD and SA, and Transmission Constraints (Jan -Mar 08)	<p>Additional work.</p> <p>Completed</p>	<p>Issues Paper (provided with previous report) used to inform Executive Director's meeting with Qld Minister for Energy, April 2008. Presentation updated to brief EUAA Members Meeting in Bris, April 2008.</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>Minister briefed on user concerns that interconnector constraints are raising prices for end users.</p> <p>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>
EUAA Member Survey of	Ongoing	Revision of results to date following further responses	Used results so far to advocate on impacts on

Project/Activity	Status	Outputs	Outcomes
High Prices in the NEM (Jan 08 to present)	(survey not yet complete)	from members. Preliminary results provided to selected media.	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.
Garnaut Review – Emissions Trading Scheme Discussion Paper (April 08) [Mainly internally resourced project] <i>Copy included</i>	Completed	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 interaction of the scheme with other policy measures such as the Mandatory Renewable Energy Target , demand management and energy efficiency. EUAA has met with officials from Secretariat, including Prof Garnaut. Submission included some consideration of NEM impacts of the above design issues.	Design aspects of the ETS include consideration of impacts on end users such as: <ul style="list-style-type: none"> • Impacts on electricity prices • Impacts on competitiveness of trade exposed industries • Compensation for traded and non-traded industries and flow on effects.
Assessment of QNI Upgrade – draft report (May 2008) [jointly with consultant] <i>Copy included</i>	Completed	Submission to joint assessment draft report published by Powerlink & Transgrid. Highlighted the concerns of users re the failure to upgrade QNI and faults with the Regulatory Test	Demonstrate problems with the Regulatory Test for interconnectors and constraints on QNI: <ul style="list-style-type: none"> • Wealth transfer from end users to market participants • Higher and more volatile spot prices, flowing through into contract prices
EUAA WACC Rule Change Request (Further Submission) (June 2008) [Joint work with consultant] <i>Copy included</i>	Completed	Submission to AEMC arguing that the EUAA’s RCR for the WACC parameters should apply to the three existing regulatory reviews, viz, Transgrid, Transend and the NSW/ACT distribution sector.	Application of the RCR to the three reviews would, if accepted, result in a significant downward movement in the regulated WACC flowing through into lower network charges.

TABLE 2: WORK UNDERTAKEN WITH EXTERNAL CONSULTANTS

Project/Activity	Status	Outputs	Outcomes
TransGrid Proposed Pass Through for Network Support (April 08) <i>Copy included</i>	Completed	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>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 (eg that the avoidance of capex is already being achieved) • Keep transmission charges lower than they otherwise would be • Support the use of DSR for network support with fair benefit sharing between Transgrid and end users <p>In the event, AER allowed the pass through and the outcomes were thwarted by a poor structured regulatory determination.</p>
Assessment of QNI Upgrade – draft report (May 2008) [jointly with staff] <i>Copy included</i>	Completed	Submission to joint assessment draft report published by Powerlink & Transgrid. Highlighted the concerns of users re the failure to upgrade QNI and faults with the Regulatory Test	<p>Demonstrate problems with the Regulatory Test for interconnectors and constraints on QNI:</p> <ul style="list-style-type: none"> • Wealth transfer from end users to market participants • Higher and more volatile spot prices, flowing through into contract prices
EUAA WACC Rule Change Request (Further Submission) (June 2008)	Completed	Submission to AEMC arguing that the EUAA’s RCR for the WACC parameters should apply to the three existing	Application of the RCR to the three reviews would, if accepted, result in a significant downward movement in the regulated WACC flowing through into lower network charges.

Project/Activity	Status	Outputs	Outcomes
[Joint work with staff] <i>Copy included</i>		regulatory reviews, viz, Transgrid, Transend and the NSW/ACT distribution sector.	
LNG Developments Issues Paper – electricity aspects (May-June 2008)	Work continuing	Preparation of Issues Paper for use in advocacy with Governments and regulators. The Issues Paper will focus on possible impacts of the developments on end users of gas and electricity.	Paper to highlight strategic aspects of LNG development proposals on the gas market and power generation including gas and power prices. Outcomes being sought are: <ul style="list-style-type: none"> • Competitive gas prices for domestic gas users • Flow through into electricity prices • Efficient contracting for gas • Availability of pipeline capacity
ACCC Inquiry into BG’s proposed acquisition of Origin Energy – electricity aspects (June 2008)	Work continuing	Submission to ACCC and related advocacy	Submission to highlight impacts of proposed takeover on gas and electricity markets and end user outcomes. Outcomes being assessed include: <ul style="list-style-type: none"> • Market power re gas production, haulage, power generation and retail activities • Competitive gas prices for domestic gas users • Flow through into electricity prices • Efficient contracting for gas
Electranet Appeal re AER Revenue Determination (June 2008)	Initial assessment	Assessment of the appeal and its likely impacts on users. Assessment will help determine the need for further involvement.	The need for further work will be determined around the following possible outcomes: <ul style="list-style-type: none"> • Appeal resulting in higher asset valuations for Electranet • Extent of impact on Electranet revenues and hence TUoS charges • Any regulatory precedents that might follow.