

**WORK & ACTIVITIES REPORT FOR ADVOCACY PANEL  
STAFF FUNDED POSITION  
EUAA DIRECTOR – POLICY AND REGULATION (‘NEM SPECIALIST’)  
Period: 1 June 2006 to 30 August 2006**

**Background**

This has been a period dominated by several significant reform reviews that have required the development of extensive input to ensure that end user interests are strongly presented in the relevant forums. In addition a number of other projects such as the Queensland Connections Agreements and the implications of wind power for end users have been brought to a successful conclusion.

**Projects worked on:**

*1. COAG Energy Reform Implementation Group*

- This is an area of prime importance in the energy reform process and is of major significance to EUAA members. I have managed this project including:
  - Meetings with ERIG and other stakeholders;
  - Developing a policy position for the EUAA;
  - Preparing with the assistance of consultants the EUAA submission to ERIG;
  - Preparing with the assistance of consultants presentations to ERIG and its Reference Groups;
  - Working with the EUAA’s Energy Analyst;
  - Obtaining member input on the submission;
  - Prepared briefing to the EUAA Board and Members;
  - Prepare press releases and liaise with the media; and
  - Coordinate end user groups input into key meetings with ERIG

There has been an extensive lobbying effort put forward by Supply Side interests in an attempt to ensure that their views are accepted by ERIG. The Reference Groups are heavily dominated by the Supply Side and we are having to devote significant resources to ensure that end user interests are given proper consideration. The tight timeframe imposed on ERIG by COAG (they have to report by the end of 2006), means that ERIG is not in the position to undertake significant research on its own behalf and has to rely on the input from stakeholders, including end users. There is a strong risk this could favour Supply Side interests who have extensive resources available to them increasing the need for strong end user advocacy.

Discussions with ERIG to date, including with its Chairman and members, suggest that our input is making a very favourable impression and are tuning in to the need to make end user outcomes a high priority.

*2. MCE Electricity Market work stream*

Substantial work has been undertaken in this area with a busy MCE work program and multiple consultation documents being a key driver. Some of the main items are below.

*a. Comprehensive Reliability Review*

What was originally envisaged as a review looking at some specific aspects of reliability was broadened to become a comprehensive review of the reliability standards. I have been involved in managing EUAA involvement in this project:

- Working closely with consultants MMA in preparation of the EUAA submission and subsequent presentations.
- Presented to the Reliability Panel at the Stakeholder Forum.
- Researched key aspects of emerging issues and prepared papers for discussion.
- Sought the views of critical EUAA members on developing an EUAA position for consideration by all members.
- Worked with MMA consultants on the determination of an economically optimal Reliability Standard. This research has been released as a stand alone report and was a valuable source document for the submission into the Comprehensive Reliability Review.
- Reliability and the cost of reliability are major issues for EUAA members. The EUAA submissions and above paper provided a detailed technical and economic analysis as a valuable input to the Review. Following the Stakeholders Forum further research was undertaken by MMA that underpinned and added to previous work done for the EUAA by Bardak on Market Structure (also funded by the Panel). Major issues, such as whether Australia should move from an energy only market to a capacity market, have emerged and will require heavy involvement from the EUAA and myself in the coming months.
- The work undertaken on reliability has also served a valuable education role in informing the EUAA, its members and energy users more broadly on the very technical issues around setting reliability levels in the NEM. This work is expected to have lasting benefits. I have contributed to the translation of these issues into lay language.

*b. Powerlink Revenue Reset*

- The revenue reset for Queensland TUOS charges is being conducted by the AER. This will set the price for the next five years and is a significant cost input for EUAA members (TUOS charges are generally highest for the largest users), as well as a major determinant of reliability and energy prices.
- I have been involved in working closely with the consultants in preparation of the submission, development of presentations on the application and in extensive consultations with Powerlink on the application and our submission.
- This is the first price reset that is being undertaken by AER and it is essential that there is strong end user involvement in the process. Powerlink is seeking major increases in both capex and opex and the EUAA has strongly advocated for end users, particularly in urging strong scrutiny of Powerlink's claims. We are aware that the AER has picked up on a number of the points made in the submission and its consultants are known to be undertaking tight scrutiny of Powerlink's business.
- The importance of our involvement was made starkly obvious when at the close for submission the EUAA submission was the only detailed submission received. The AER subsequently actively sought other submissions but the EUAA has remained the major voice for end users to the extent that Powerlink and the AER have maintained on going consultation with us.

- The draft AER report is due to be released in mid October and will require extensive input from the EUAA to advocate on behalf of end users. The Panel has provided funding for us to engage consultants to assist in further input.

*c. National Framework for Distribution and Retail Regulation Review*

- MCE has agreed to an arrangement for transferring distribution regulation to the AER by 2007. Distribution prices make up around 30-40% of the delivered price of energy and are also important to end users in terms of service provision.
- MCE announced in May that there had been agreement to transfer distribution functions – prices as part of the 2006 legislative package and service in 2007.
- A consultation group is being established on the latter.
- The MCE outcome will result in a consistent approach to distribution regulation across the NEM, and a single regulator, the AER. EUAA expects streamlined and more consistent decision making, as well as the possibility of better outcomes for end users (but they will need to stay involved in the regulatory determinations).
- The draft legislation that will enable the establishment of the National Framework, and a number of other initiatives such as a merit review process has been delayed and there is still no date as to when it will be available for public consultation. In the meantime I continue to plan the EUAA's involvements, monitor the situation and identify implications for end users.

*3. AEMC Rules Changes*

AEMC is now involved in a range of important reviews and Rule changes where submissions and other input have been provided.

*a. Chapter 6 Rules Review*

AEMC has been involved in extensive work and consultation on its Chapter 6 Rules review, including releasing several Issues Papers and a Draft Rule change. The AEMC has now released its Second Draft Rule Proposal and I am responsible for preparing the EUAA response to the proposal.

- The Draft Rule proposal has failed to address many of the issues raised by the EUAA and other end user organizations on what are fundamental changes to the Rules that govern the determination of transmission revenue and investment in the NEM. The Draft Rule proposal has also proposed other initiatives, particularly in respect of confidentiality provisions that were not previously canvassed.
- EUAA is critical of the AEMC second draft Rule change, believing it to put future regulatory gains for end users at risk
- I have been involved in extensive consultations with other relevant parties;
- I am writing the EUAA next submission that has been prepared in house with assistance from the Energy Action Group.
- I also participated in an AEMC working party addressing definitions and other issues that will accompany the proposed Rule change.
- I am currently also reviewing the AEMC's draft ruling on transmission pricing as part of preparing a separate submission on this matter

b. Snowy Derogation

AEMC are assessing the performance of a trial intended to avert problems caused by the bidding behavior of the Snowy and the impact of existing regional boundaries. AEMC have several proposals before them intended to overcome the problem.

- Assisted MMA in finalizing a submission to the AEMC. The submission favoured a solution involving a change in current regional boundaries with the Snowy region split into northern and southern regions and expanded so that each would have significant load as well as generation capacity.
- The AEMC has recently released a draft Rule change that we are assessing.
- I am continuing to monitor the status of this derogation which remains of significance interest to EUAA members, particularly given the decision by governments not to sell their interests in the Snowy scheme. Consideration will be given to the need for further input to the AEMC and other possible advocacy.

c. *Regulatory Test*

The MCE has asked the AEMC to review certain aspects of the current regulatory test for network augmentations. This is critical to the determination of transmission interconnection and efficient investment in transmission upgrades and large distribution augmentations.

- Wrote a submission to the AEMC using an MJA's independent report as a key input (funded by the Panel). The submission argues for significant changes in the current approach and questions the efficacy of the regulatory test in terms of delivering benefits to end users in line with the NEM Single Market Objective.
- The submission and MJA report was finalized and provided to the AEMC and Panel.
- The AEMC's work on the regulatory test now also extends to the 'Congestion Management Review'.
- The question of the appropriateness and application of the Reg test is closely linked to both the ERIG and Congestion Management reviews. The EUAA submission and the work undertaken by MJA demonstrate clearly that as now designed and applied it would be almost impossible for any increased interconnector proposal to pass the Reg test. As a result we consider that it inevitable that the differences in prices and the market power of generators will remain. This has led to a cost to end users of some \$9 billion over the ten years since the NEM started. We will be continuing to advocate strongly the need for reform in this area in all three reviews mentioned using the input provided so far as a sound basis.

4. *National Electricity Regulation*

a. *NEMMCO Wind Energy Reference Group*

NEMMCO established a Wind Energy Reference Group in response to the request from the AEMC to examine and report on the impact of wind energy on its obligations as ISO. Wind energy is thought to present potentially major problems for system operation (and costs, which would be passed on to end users).

- Worked with the consultant on his report to the EUAA on the impacts of wind power on the NEM, especially to ensure its direct relevance to end users.
- The report on the outcome of the working group and the report has been provided to the Panel.
- The Working Group has been re-formed to consider draft rules that will be submitted to the AEMC. I am participating in this process.

## 5. *State-based electricity policy and regulation*

### *a. Queensland Government Owned Corporation Review*

In October 2005 the Qld Premier announced a review of the State's energy GOCs. This review will have extensive and possibly significant implications for the structure of the Qld electricity sector and the level of retail competition.

#### **Advocacy**

The Qld Premier subsequently announced on 26 April 2006 decisions to sell the retail arm of Energex and the contestable book of Ergon, as well as a number of other initiatives. These initiatives could result in a significant reduction in competition in the Qld market with adverse implications for end users. Following discussions with Qld members a letter was prepared and sent to the Qld Premier and other relevant Ministers. A meeting was subsequently held with senior Qld officials.

Following announcement of the process for the sale of the first tranche of the newly formed Sun Electric, a follow up letter to key officials was prepared and I lead a meeting with them. A meeting with the Queensland Treasurer was also in the process of being arranged and will now take place following the recent State Election.

The ACCC sought our views as to the implications for competition if Sun Electric was to be acquired by either Origin or AGL. The EUAA subsequently provided a submission that was prepared in house on this issue. I oversaw this work.

This is a significant issue for end users and will require continued strong advocacy to achieve competitive outcomes. Note that the benefits will flow to both large and small users.

## 6. *Other Matters*

Other relevant activities include:

- Attended the EUAA's *Energy Price & Market Update* seminar in Melbourne in June
- Attended EUAA's Board and Members Meetings
- Attended the *Australian Energy & Utilities Summit* in Sydney in June
- Attended the ACCC Regulatory Conference in July
- Attended the EUAA's *Energy Recontracting Forums* in Brisbane and Rockhampton in September
- Provided input into the EUAA Business Plan, Newsletter, web site and Members Meeting Notes

- Provided input into presentations by the Chairman, Executive Director and self.
- Met with ElectraNet on their forthcoming revenue determination and desire to consult closely with the EUAA.

**Advocacy:**

- Preparation of submissions and other relevant correspondence as input into reviews
- Discussion of issues with Board, members and other end users in developing responses
- Attended and/or presented at Public Forums / Hearing
- Analysis and evaluation of issues from an end users' perspective
- Face to face meetings with relevant politicians, officials, regulators, end users and market participants.

**Outcomes & Outputs:**

As noted in my last report, much of the work program that I have worked on over the last quarter is on-going without any decision point being reached by policy / regulatory makers. The aim of the advocacy has been to ensure end user views' are considered as part of the relevant review process, mainly via submissions, other written input or via meetings. A second aspect of the work program has been to keep members and other end users abreast of the electricity reform issues and also seek feedback on the likely impact on their business operations as consequence of proposed regulatory reforms. The number of regulatory issues currently being considered are placing severe pressure not only on ourselves but also the regulatory bodies themselves which translates to delays and slippage of timelines. This causes additional problems for the EUAA as, in such an environment, the appropriate level of scrutiny is not applied and this can lead to less than satisfactory outcomes. As a consequence, this increases the need for strong advocacy on behalf of end users.

As demonstrated above I have played a major part in ensuring that major end user interests are given due consideration in many important forums. I consider that this quarter has been marked by a number of major successes particularly in respect of ERIG. That key ERIG members have indicated that the EUAA submission is in tune with their thinking is a significant outcome in this most important review. My role in respect of the Powerlink reset is also a very pleasing result in that the EUAA is seen by both Powerlink and the AER as the representative of end users.

Robert Davenport  
18 September 2006