



160 – 162 BERYL STREET
PO Box 800
BROKEN HILL NSW 2880
PHONE 08 80825800
FAX 08 80825333
www.australianinland.com.au
ABN 12854879489

Application of the Industry Levy to fund the AER and AEMC

Prepared for : Ministerial Council on Energy Standing Committee of Officials
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Prepared by: Australian Inland

Distribution & Retail Activities

- Australian Inland is an electricity distributor located in far western New South Wales, covering 155,000 sq km. There are approximately 20,000 connected customers in the distribution area.
- Current fee structures are linked to settled quantities of energy. The ability to reduce volume energy consumed is in turn linked to demand management strategies. Typical network driven demand management opportunities in Australian Inland's area are minimal as the network's load capacity is not constrained. Whilst the majority of zone substations have surplus load capacity, there is, overall, very low growth potential.
- Also, renewable energy generation demand management strategies are not available to Australian Inland on a broad scale for geographic and demographic reasons. There is only one very small renewable generation facility in our region, at White Cliffs. There is limited opportunity to reduce network demand via installation of significant renewable generation while suitable options for renewable solutions are limited for the sparsely populated rural areas, and expensive to design, build and operate.
- Australian Inland is also an electricity retailer with all customers entitled to competitively source their supply from authorised market retailers. However, there is little price incentive for the majority of our customers to change retailers. Australian Inland presumes that retail price regulation will exist in NSW for another three years. There are no price incentives to conserve energy or to avoid consumption completely.

Objectives & Principles Supported

Item 2, Discussion Paper

- Appendix A (discussion paper) boldly underlines the fact that energy regulation in Australia is costly to the industry and customers alike. The removal of duplication of efforts is long overdue.
- The objectives of the financing arrangements are supported – economic efficiency, competition, equity, transparency, participant responsibility.
- The principles are supported – simplicity, predicability, promotion of efficiency. Australian Inland supports full cost recovery for the AEMC and AER, transparency of AEMC and AER budget setting and independent approval of these budgets.

Cost Allocation Impacts

Item 3, Discussion Paper

- Funding of extraordinary costs should be shared across the industry, cognizant of characteristics that identify scale of business operations, so that small, regionally-located companies like Australian Inland are not presented with the very barriers the new rule maker/regulator is attempting to prevent. The structure of participant fees in the NEMMCO determination dated 26 March 2003 is a useful model to use.
- Cost drivers, such as dispute resolution, should be based on user pays principles. The "specific user fees" as per the NEMMCO determination could be adapted to suit AER and AEMC.
- Incremental revenue will probably be insignificant, and fluctuate in the start up years. Australian Inland suggests such revenue accumulate in a separate fund and be saved for future

use as emergency funds, eg to cover operational expenditure blow-outs. This way, the national regulatory bodies can avoid future funding calls on industry during any year.

- Whilst we would not like to see a purely city-based, bureaucratic mentality fixed within the new AEMC and AER structures, Australian Inland is firmly of the opinion that regional Australia cannot afford to pay for regional offices. It is doubtful that customers would benefit from regional offices of regulators as well. The AER and AEMC operating budgets should accommodate reasonable visits to regional locations allowing market participants and customers the opportunity to see benefits emerge from the current reforms.
- The levy paid by any participant should be capable of being directly charged back to each end user so that the objectives of equity and transparency are met.
- Australian Inland does not support a significant increase on existing fees because of an inappropriate or disadvantageous cost allocation mechanism.
- Whilst Australian Inland agrees that the regulated monopolies (eg wires business) could easily pass through fees, distribution and transmission businesses don't generally have the retail billing skills and systems in place to collect fees. An impact of cost recovery mechanisms being embedded in monopoly billing arrangements could result in such businesses being required to act like retailers which would take industry back to the old days when shire councils ran the businesses.
- Australian Inland sees merit in adopting a model like the NEMMCO participant fees structure to suit the operating and capital expenditure needs of the AER and AEMC. The costs allocated to each market participant could be similarly shared between market customers and generators, and should reflect scale of operations in the fairest manner. Australian Inland considers that energy throughput would be the most appropriate and fairest manner.
- Australian Inland would support retailers being determined as the party best able to recover these costs on behalf of all other market participants. There should also be scope for the retailer to be compensated for the effort – given that the retailer makes significant investments in systems to deal one on one with customers. A mechanism should allow retailers to recover a transaction fee or other charge from other market participants.
- Australian Inland currently pays approximately \$15,000 to NECA in annual national fees and \$15,000 to IPART in annual jurisdictional licence fees.
- Currently, Australian Inland's total annual fees paid to NECA and IPART collectively amount to approximately \$1.60 per customer per year.
- Australian Inland does not support a cost allocation methodology that would result in higher costs for Australian Inland or its customers. (In fact, Australian Inland believes that there could be savings given that there will be improvements gained from the national regulator restructuring efforts.)
- The NECA fees are based on 2002-03 energy throughput at five bulk supply points of approximately 428 GWh in throughput, 403 GWh in actual sales and 25 GWh in losses. Included in the throughput is about 46 GWh metered energy sold to other retailers. The IPART licence fees are as per noted on the website, and as noted in the discussion paper, don't link specifically to any actual cost.
- Australian Inland also has a significant portion of its distribution network affected by cross border arrangements. These cross border supply arrangements are, in effect, two customers of

a Victorian distributor, and not at transmission level supply arrangements.

- The fees currently paid to NECA are directly attributable to end user consumption and passed through on a cost reflective basis to large or negotiated contract customers only. The fees incurred for 95% of our customer base, those who remain on regulated tariffs, are not passed through in a cost reflective manner – the ability to implement cost reflective retail tariffs in NSW is severely limited whilst jurisdictional price constraints are in effect. If fees are based on energy throughput, in each distribution area, the energy would include 1st and 2nd tier customers. Australian Inland's network and retail tariffs must be able to be structured (or restructured if necessary) to allow pass through of fees.

Preferred Levy Approach

- The levy amount must be realistically based upon recovery of costs incurred to meet the operational requirements of the AER and the AEMC. The current participant fees structure used by NEMMCO is a reasonable starting point to allocate costs. The adoption of this structure should result in savings for customers – not increases – as duplications within the existing regulatory structure across the States, and nationally, should be removed.
- Market participants should also be granted the opportunity to test the recommended levy mechanism prior to implementation on 1 July 2004 in order to ascertain financial impact on their businesses. There should be one more opportunity to provide comment and influence the outcome before the costs are finally allocated.
- In future years, in line with the documented process in the discussion paper, Australian Inland will welcome the proposed consultation process. Possibly unlike larger businesses, we would prefer to see the levy reviewed at more frequent periods. This is due to the impact of any costs imposed on our business which is small enough to pick up the sensitivities. Hence, every two or three years may be more appropriate for our business, rather than a longer period.
- Ultimately, the levy paid, should be weighted against the amount of energy settled in the market by the participant. Our retail business has the billing capability to collect the appropriate fee from each customer, but should also be capable of being compensated by other participants for providing this service.
- There is a desire to see that the current fees paid for the AER/AEMC equivalent (ie NECA) transparently extracted from the existing mechanism in the Code.
- The levy amount should be fully passed through to customers.