



## RESPONSE TO

Ministerial Council on Energy Standing Committee of Officials

### APPLICATION OF THE INDUSTRY LEVY TO FUND AER AND AEMC

#### Discussion Paper

April 2004

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The Ministerial Council on Energy Standing Committee of Officials (SCO) has issued a discussion paper outlining various matters to be considered in formulating the structure of industry levies to fund the functions of the Australian Energy Regulator (AER) and the Australian Energy Market Commission (AEMC).

The SCO is seeking comment on all aspects of the discussion paper, with emphasis on key areas such as the identification of the most economically efficient mechanisms for the cost recovery and an analysis of the administrative efficiency and practicality of these options. Powerlink offers the following comments in relation to the proposed levy.

#### **1. Structure of the levy arrangement.**

Powerlink considers the primary driver of the levy arrangement should be to keep it as simple as possible while bearing in mind that it should attempt to minimise distortion of behaviour by market participants.

It is acknowledged by PWC that all of the costs of the energy sector are ultimately borne by the consumer. Therefore it would be appropriate to consider the overall efficiency of simply levying the costs directly to the consumers (via the retail sector). This would be a very efficient allocation and collection mechanism and the benefits of this should be taken into account when comparing it with more complex methods of allocating costs.

#### **2. Pass through arrangements**

PWC have identified the ability of participants to pass through the costs of the levy as something which should be taken into account when allocating costs to groups of market participants. PWC suggest that wires businesses may be more easily able to pass through rule making and regulatory fees which might be imposed on them.

Powerlink considers that not all regulated wires businesses are able to readily recover any such additional costs due to the revenue cap being set for fixed reset periods and codified pricing and collection arrangements which include extremely limited pass through provisions. Powerlink is not aware of any provisions in the code which allow for this pass through. In short, a pass through is not "automatic" and needs to be pre-agreed with the regulator of the wires business. Some wires businesses, like Powerlink, will not obtain a regulatory revenue reset for several years. Consequently, any arrangement which involves levying Powerlink (and others in similar circumstances) needs to be accompanied by a specific ruling from the relevant regulator that the levy may be immediately be passed through.