



7 April 2004

Industry Levy
C/- MCE Market Reform
Department of Industry, Tourism & Resources

By email: MCEMarketReform@industry.gov.au

Application of the Industry Levy to fund the AER and AEMC

Transend Networks Pty Ltd (Transend) welcomes the opportunity to respond to the above discussion paper. Transend does not have strong views on the appropriate mechanism for cost recovery. In general, Transend agrees with the broad principles outlined in the consultation paper.

General observations

Transend notes that the discussion paper's arguments regarding "economic efficiency" in terms of cost recovery are sometimes confusing and over-stated. We note that the consultation paper makes the following observations with regard to competition, which appear to be slightly contradictory:

- Where strong competition exists, the ability of market participants to pass through additional rule making and regulatory costs to end users may be limited. (Page 14)
- In addition, it should be recognised that all of the costs of the energy sector are ultimately borne by the consumer. (Page 6)

In Transend's view, the matter as to how the levy is allocated should be resolved quickly, while ensuring that the cost allocation decision does not unfairly burden the market participants required to collect it.

Recovery of costs

The paper notes that the levy will ultimately be borne by customers. Care should be taken so that any arrangements for collection of the industry levy do not impose a burden on the shareholders of the companies that are to collect the levy.

If regulated network businesses are to bear the costs of levying the regulation costs, then these costs (both the levy itself and any associated administrative costs) will need to be recognised in the revenue caps of those regulated businesses. This will mean that accurate forecasts will need to be made at the time revenue caps are established, or the

amounts will need to be included as a pass-through item. For existing revenue caps, these costs will need to be explicitly recognised as a pass-through item.

Distortion

Should TNSPs bear the cost of the industry levy, it will be important that these costs are recognised as exogenous, and not taken into account when comparing relative costs of transmission and other energy sources (eg generation, gas transmission) or between transmission companies.

Quantum of levy

Transend is concerned that the industry levy is set appropriately in order to provide the regulators with adequate expertise and resources to carry out their functions effectively. Transend recognises that regulators must compete with private sector salaries in order to attract and retain appropriately skilled staff. It should also be recognised that the impact of regulatory decisions is orders of magnitude greater than the regulator's staff costs. Therefore, the business-case for additional and competitively paid resources can easily be made.

Transend would be pleased to make staff available to discuss any of the issues raised in this submission. A mutually convenient meeting can be arranged by contacting Bess Ramsay on (03) 6274 3909.

Yours sincerely

[by email]

Bess Ramsay

ESI Regulation and Compliance Manager