



12 Dec 2005

Australian Energy Market Commission,

Re: Review of Electricity Transmission Revenue and Pricing Rules

Norske Skog Paper Mills (Australia) Limited welcomes the opportunity to provide its response to the issues paper. Our response will take the form of brief answers to the questions raised in the issues paper.

### **Introduction to Norske Skog**

Norske Skog Paper Mills (Australia) Limited is part of the Norske Skog Industrier group, the largest newsprint manufacturer globally. In Australia we operate two mills at Boyer, Tasmania and at Albury, NSW. We are in the midst of a major project, budgeted at 140 million AUD, to upgrade the Albury paper mill to increase its capacity by 25% which we expect to complete in the first quarter of 2006. We also have approved projects of \$A8M to improve facilities at the Boyer mill, to produce improved newsprint grades as well as a plan to spend \$A12M-\$A14M to upgrade effluent treatment at the Boyer Mill. Both mills routinely spend \$A12M-\$A15M together per annum on miscellaneous capital items to supplement continued operation.

As a major user of electricity we are vitally concerned with the operation of a competitive NEM and proper regulation of the transmission system which is operated as a monopoly.

### **Response to Questions**

1. Should transmission prices be regulated and why?

NSPMA believes that transmission should be regulated as it is a monopoly and without regulation there will be the opportunity created for the operator to exercise undue market power. Dilution of transmission prices through DNSP's is not an argument against deregulation of transmission but rather, possibly one for ensuring that the regulation of the distribution system is consistent with the intent of regulation of the transmission system. Furthermore, dilution does not occur for customers who are directly connected to the transmission system who are large users of electricity and whose costs and competitiveness are materially impacted by transmission charges.

2. If regulation is required what form should this take? For example, should it be less prescriptive and involve greater transparency or be more prescriptive?

Regulation should provide the TNSP's the incentive to improve network utilisation particularly where the characteristics of the load are such that, given the proper incentives, it can be managed to avoid future upgrades of the transmission network.

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4. Bearing in mind the NEM objective, should economic efficiency of the Rules be the focus or should it also have regard to the distributional consequences of Rule changes?

Ultimately efficiency should be the main, but not the only, driving force of the rules. There should be regard given to other policy objectives such as encouraging development in regional Australia.

6. Is the allocation of network costs between the connection and shared network categories in the Rules broadly appropriate? If not, how could it be improved?

Yes it is.

Although on a philosophical point we should be considering “attributing” cost to those who cause the cost as opposed to “allocating” it which conjures up concepts of accounting allocation which is usually done arbitrarily rather than on an activity basis.

7. Should a common service charge be maintained or should these costs be incorporated into another charge? If not, how should common service costs be allocated or incorporated into other charges?

This is not a bad concept although there is scope to consider the assets and resources that should be grouped under this category. For example is it appropriate to include head office buildings in a system related cost category?

8. Should generator and MNSP use of system charges remain a matter for negotiation with the TNSP or should they be prescribed in the Rules?

Conceptually the rules governing MNSP's should be the same as those that apply to generators.

9. If a modified CRNP usage charge is to remain an option:

- should the Rules prescribe the criteria for the AER to accept implementation of modified CRNP?; and

Yes, otherwise the AER will be put into a position of making up the rules.

- should any network customer (rather than just the TNSP) be able to request that the modified CRNP methodology be implemented?

Yes, in order to give short term efficiency the best opportunity of being achieved.

12. Is it appropriate to provide scope for TUoS discounting in the Rules?

The scope to provide TUoS discounts should be retained.

14. Is it appropriate to prescribe arrangements for TUoS rebates in the Rules? If so, could the existing arrangements be refined and how?

The rules should prescribe arrangements for TUoS rebates.

15. Do the current pricing arrangements appropriately cover alternatives which contribute to the avoidance or postponement of transmission augmentation?

There are issues with the rules for evaluating opportunities to avoid transmission investment. One such issue is that the horizon should be allowed to span more than one regulatory period. A related issue is that if the network is not expected to be congested in the regulatory period when the application is made but is expected to occur, with a high degree of certainty, in a future regulatory period then the contribution of the opportunity to avoiding network investment should be recognised. This is particularly important in cases where a new facility is being built and the opportunity to benefit the system would be lost if the appropriate capability is not included in the initial design.

16. Should TUoS rebates also apply to generators connected to the transmission network, DSM or other non-electricity options? Does this depend on whether generators generally pay shared transmission costs?

The rules should be extended to apply to DSM solutions and not just to generation.

17. Should transmission pricing arrangements principally seek to promote efficiency in the short or long run?

They should principally seek to promote long term efficiency but this should not preclude having flexibility to have short term efficiency.

18. If transmission pricing arrangements should consider both the short and long run, what approach should the Commission take to determine the appropriate balance between these aims?

Pricing signals sent to users to use the network to its maximum ability at times when other users are not will, in the longer term and short term, ensure the most efficient development and usage of the network.

19. To what extent are existing signals from other aspects of the NEM arrangements (or requirements from regulatory settings outside the NEM) sufficient to promote efficient behaviour by actual and potential consumers and producers of electricity in the short and long run?

We agree with the suggestion in the paper that the other aspects and arrangements are sufficient to promote efficient behaviour. There is a risk of over signalling if the transmission network is additionally used to send a similar signal.

20. Given current distribution network pricing arrangements, is it appropriate to prescribe transmission pricing structures in the Rules?

It is appropriate as it would influence the DNSP's to offer incentives to their customers that does not disadvantage other users of the transmission system.

21. If so, should prescription be limited to prices for particular network users?

The rules cannot apply only to large users as the system as a whole is influenced by the behaviour of all users.

22. Should NEM connection charges continue to be based on a shallow connection approach or should a deep connection approach be adopted?

Shallow connection seems to avoid complicated arrangements and issues of ownership of shared network elements. On this basis it seems to work in the current arrangements.

24. If a deep connection approach is to be adopted in the NEM, how should it be formulated?

Refer to the answer of question 22.

25. Is a deep connection approach compatible with the open access transmission regime of the NEM (which is not a subject of the present Review)? If so, how should potential “free-rider” effects be managed?

Refer to the answer of question 22.

27. Are there reasons why generators should make some contribution to shared network costs? If so, what approach should be used to determine the share of shared network costs should be paid by generators?

To the extent that some generators have an influence on the system, for example the influence on frequency control systems of generators (wind generators for example) that dispatch an unpredictable load, these costs should be paid for by the causer otherwise the other users would pick up these costs unfairly.

28. Is the current shared network charging regime the best approach for achieving the NEM objective? If not, what improvements could be made?

On the whole the current system serves the purpose.

29. Are there arrangements operating in other jurisdictions for the recovery of shared network costs that would be more appropriate for the NEM? If so, which jurisdictions and which aspects of their arrangements would be appropriate for the NEM?

There should be scope given to the TNSP's to incentivise users to bias their load away from system peak usage periods. Such incentives should be able to be varied by season, day of week and time of day. For example if a certain charge is recovered on the basis of maximum demand then there should be scope to vary the maximum demand charge such that the user is encouraged to use a lower load in system peak periods but be given the opportunity to use a higher maximum demand when the system is not as heavily loaded. This concept is consistent with long term efficiency.

30. How much discretion should TNSPs have to discount charges?

TNSP's should be exposed to optimisation risk and also given the opportunity to enter into certain arrangements with users to improve the utilisation of their network.

31. Should TNSPs be entitled to recover the cost of discounts from other loads?

The current rules allow TNSP's to recover the discounts if they are identified at the beginning of a regulatory period. The discounts are based on the extent that a benefit to other users can be demonstrated, for example through avoiding investment. This should be extended to allow the TNSP's to do the same within a regulatory period so as not to create a disincentive for them to facilitate opportunities that may be identified during a regulatory period.

32. Should any conditions for recovering the cost of discounts from other customers be prescribed in the Rules or left to the AER to determine? If so, what should be the general content of these Rules or AER discretions?

The recovery should be limited to the extent a demonstrable benefit can be shown such that the other users are not worse off as a result of the recovery. The conditions should be consistent with this principle.

33. Should avoided TUoS rebates be retained in the Rules or left for negotiation between the DNSP and connected party?

TUoS rebates should be retained in the rules. And should be granted subject to demonstrating a benefit to the other users and to the extent that the other users are not worse off as a result.

34. Is the appropriateness of TUoS rebates contingent on whether generators pay shared use of system charges?

If applied correctly it would not matter.

36. To what extent is it necessary or worthwhile to prescribe transmission pricing structures in the Rules in order to promote the NEM objective?

The rules should be clear enough to ensure that a TNSP is not given the opportunity to use its monopoly power to disadvantage users.

37. Would it be appropriate to provide guidance to TNSPs on what pricing should achieve instead of prescribing the structure? If prescription is required, which charges should have price structures prescribed in most detail?

38. Should the degree of pricing structure prescription vary depending on the relevant class of network user paying the charge? If so, how could this be implemented?

39. How much discretion over charging structures should be left to the TNSP and the AER?

(answer to cover 37, 38 & 39)

One possibility is to prescribe a ceiling price level that can be used as a benchmark to judge negotiated pricing arrangements between a TNSP and another party. This ceiling should also be a shelter that the party can use at the end of the arrangement. The user should have the right to appeal, possible to the AER, if they feel they are being disadvantaged in the negotiations. An example of such an arrangement is the current provision for the common service charge whereby customers may be charged the lower of energy and demand based transmission charges. However, what is proposed here is wider in scope.

45. Could the current provisions in the Rules regarding inter-regional TUoS payments be improved? If so, how?

The current arrangements seem to work.

48. Is there a need for greater clarity in the Rules on the treatment of the negotiated charge paid by the importing region to the exporting region for the purposes of determining annual aggregate revenue requirement of a TNSP?

The ambiguity in the current rules should be settled in order to accurately reflect the actual usage of the network.

49. Would it be appropriate to extend the expiry date of clause 3.6.5(a)(5)(ii) from 1 July 2006 to 31 December 2006 to coincide with the conclusion of the Commission's review?

This sounds like a reasonable suggestion. Otherwise users could be left exposed during this period.

50. Do the current, or alternative arrangements provide TNSPs with adequate incentives to invest in assets that facilitate electricity flows between adjacent jurisdictions? If not what improvements could be made?

Under a revenue cap TNSPs are indifferent to facilitating electricity flows between adjacent jurisdictions. There should be an incentive to increase these flows year on year.

51. Should the negotiations of inter-regional payments be between TNSPs rather than jurisdictional governments?

Since the knowledge is with the TNSPs rather than the governments it seems like a reasonable suggestion.

52. Should incentives/penalties be in place in the Rules to ensure that an inter-regional agreement is in place?

Yes.

53. Should the provisions of clause 3.6.5 be replaced by a modified approach to TUoS pricing more generally?

Only if it can be shown to be in the interest of system users.

As a major industry set in a rural environment that is materially dependent on the cost effective, efficient supply of energy, and with a growing community that is very interested in further major development of our business, as well as efficient delivery of electricity to that community we and the community that we operate in have a substantial interest in efficient and effective regulation being put in place, that will lead to more cost effective use of the network as well as more cost effective delivery of energy to our region.

When we are upgrading plant, as we are doing now, and looking to possible major future development in the form of a 0.75 billion AUD investment, for a new production line, and 120 MW load, we believe that price signals sent to us that encourage more efficient use of the network will enhance the possibility of such projects going ahead in rural Australia. This will also increase the efficiency and cost effectiveness of current and future infrastructure and will lead to multiple benefits for the local rural community.

If you have comments or questions they can be addressed to

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Yours sincerely,  
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