



Major Energy Users Inc.

19 March 2014

Ms Tina Wong
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
Fax: (02) 8296 7899.

Dear Ms Wong

Victorian jurisdictional derogation (smelter agreements) rule change request

AEMC reference ERC 0167

The Major Energy Users (MEU) welcomes the opportunity to provide its comments regarding the application by the Victorian government to vary the derogation under the National Electricity Rules in relation to the Smelter Agreements.

The MEU notes that the Victorian government (through the State Electricity Commission of Victoria - SECV) entered into an agreement with Alcoa, the owner of the aluminium smelters at Point Henry and Portland to provide electricity supplies. After the introduction of the National Electricity Market, the Victorian government recovered the losses involved in providing the electricity services through a "Smelter Levy" being imposed on all electricity consumers in the state. Subsequently, the "Smelter Levy" was discontinued and the losses recovered through the imposition of a land tax on the easements used by electricity transmission company SP Ausnet (the easement land tax).

The rule change only nominates the SECV, Alcoa, AEMO and SP Ausnet as the stakeholders in relation to the proposed rule change but the MEU considers that all electricity consumers in Victoria are also stakeholders in this proposal as they are the parties responsible for paying the shortfall in any revenue incurred by the SECV under the agreement with Alcoa.

The MEU recognises that the closure of the Point Henry smelter (which initiated this rule change request) will result in a reduction of the costs that the SECV will incur under its agreement with Alcoa due to a reduction in the amount of electricity that will be supplied to Alcoa. Implicitly, this means that the amount of recovery required under the easement land tax should reduce. As SP Ausnet effectively "passes through" the easement land tax to consumers as part of its allowed revenue for providing transmission services, there should be a reduction in the costs for the provision of transmission services.

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Under the National Electricity Law, the AEMC is required to assess any rule change proposal in terms of the National Electricity Objective (NEO) which states:

The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and*
- (b) the reliability, safety and security of the national electricity system.*

A reduction in the losses incurred by the SECV should lead to a reduction in the easement land tax which should be passed through to consumers. As the NEO is written in terms of long term interests of consumers with respect to price, then the rule change should require that the reduction in the losses incurred by the SECV must be passed through to consumers.

The proposal notes that (page 4)

"The expected benefit is that the entity responsible for the electricity supply to the Point Henry smelter (after the expiry of Point Henry ESA) will be managing the associated risk rather than leaving SEC exposed."

If the prime expected benefit will be the reduction in the risk to which the SECV is exposed, then this benefit must have a value and be passed to consumers which are the focus of the NEO. The MEU considers that merely transferring the risk from one market participant (the SECV) to another market participant does not, of itself, promote the long term interests of consumers. Neither does the MEU consider that this transfer of risk improves reliability or security of electricity supply.

The proposal nominates "increased competition" and "reduced overheads" as other benefits. The loss of any load increases competition and this loss of load is a result of the closure decision and not from the rule change proposal. The reduced overheads of the SECV should be a benefit if there is a method for these to be transferred to consumers but in the absence of a reduction in the easement land tax, this benefit will not flow to consumers. At the same time, the MEU notes that there will be an increase in overheads for the other parties as a result of the rule change proposal and for the transfer of risk.

The MEU notes that the closure of the Point Henry smelter is seen to release the Anglesea power station owned by Alcoa to become an independent generator. The MEU questions this assumption. Under the agreements between the SECV and Alcoa, the support for Alcoa was the difference between the needs of Point Henry and Anglesea. The MEU considers that within the NEM, the output of the Anglesea power station can be notionally used to "wheel" its output to the Portland smelter. This would result in a greater benefit to consumers by reducing the easement land tax further than if Anglesea was on-sold to another party (and its power sold into the NEM) and maintaining the requirement for the SECV to provide the full amount of power to Portland smelter.

The MEU is not opposed to the proposed rule change as such but notes that the most significant element from the closure of the Point Henry smelter is a benefit to consumers through a reduction in the losses incurred by the SECV matched by a reduction in the easement land tax.

The MEU considers that the AEMC must provide a better rule which:

- Removes the derogation and releases the SECV from its liabilities from the agreement with Alcoa in relation to Point Henry electricity supplies, and
- Ensures that the reduction in losses and risks incurred by the SECV are passed through to consumers by an equivalent reduction in the easement land tax imposed on consumers through the revenue allowed SP Ausnet in providing transmission services.

Should you wish to discuss the MEU views expressed in this response in more detail please contact the undersigned at davidheadberry@bigpond.com or on (03) 5962 3225

Yours faithfully

A handwritten signature in black ink, appearing to read 'David Headberry', with a checkmark at the end of the signature.

David Headberry
Public Officer