



FOR A BETTER WORLD

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Electricity Network Regulation
Productivity Commission
Canberra City ACT 2600
Via: email

18th December 2012

To whom it may concern,

Re: Response to Productivity Commission Report on Electricity Network Regulation

Visy welcomes the opportunity to provide views on the Productivity Commission's Draft Report on Electricity Network Regulatory Frameworks.

Visy is an integrated recycling and packaging manufacturing company. It is a large industrial energy consumer with particular reliance on Electricity. As a heavily export-exposed company, Visy is very sensitive to steep rises in energy cost which it has experienced over a number of years, particularly due to extreme growth in regulated electricity network cost – therefore the customer-borne costs relating to electricity networks is of key import to Visy.

The Commission's review is a timely contribution to identifying a comprehensive framework to move forward on electricity reforms, but is sadly incomplete. For instance, Visy is disappointed that the failure of the AEMC in promulgating the disastrous transmission revenue and pricing rules in 2006 has not been identified nor evaluated. And, in looking at the spiralling costs of electricity in recent years, the Commission has appeared to have ignored the large contributions from climate change policies and the plethora of green schemes and charges levied at both Federal and State levels. These schemes are in addition to the headline carbon tax and renewable energy target programs which impose large costs in their own right, and contribute significantly to the costs of operating businesses in this country via direct and indirect administrative and compliance costs.



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Visy has the following additional comments to make in respect of the Commission's recommendations:

1. **Interconnectors:** Visy is disappointed that the impact on consumers arising from the lack of interconnectors via regional price separation, exposure to volatile wholesale prices and the full impact of the exercise of generator market power, have not been evaluated and made clear. There have been massive wealth transfers from consumers and there is clearly a need for a review of the Regulatory Investment Test. However, separate to the contention that there is no case for additional interconnect capacity, Visy does agree that existing interconnect capacity is underutilised at times because of perverse incentives stemming from electricity market structure and rules. For example, constraint rules and equations may permit "counter-price" interconnector flows to occur during periods of constraint. The market rules leading to these perverse outcomes need to be reviewed and overhauled.
2. **Inter -regional TUOS charges:** The AEMC has been investigating proposals for these charges over the past two years with the costs to be funded by consumers. In particular, the proposals seem to be directed at consumers in some states subsidising consumers in other states, with rather anomalous outcomes, including the smearing of costs and the payment of the Victorian easement tax by interstate consumers.
3. **Review of the AEMC:** Whilst the Commission is recommending a review of the AER, Visy is disappointed that it is silent on the AEMC. There must be a review of the AEMC, the institution responsible (more than any other NEM institution) in compromising Australia's hitherto strategic competitive advantage in electricity pricing since 2007. In fact, the 2006 rules promulgated by the AEMC limited the AER's ability to interrogate network businesses' revenue claims. The AEMC must be made to be more accountable for its actions and be more cognisant of consumer interests and issues. Its performance to date has been found wanting.
4. **Price Spikes and Negative Settlement Residues:** Visy considers that the Commission should have addressed the impact of transmission congestion on inter-regional transfers and on price volatility. It is curious that transmission constraints can be used to benefit generators at the expense of consumers, especially as the National Electricity Objective is written in terms of consumer interests. In this regard, reference is made of the AER's Special Report on "The impact of congestion on bidding and inter-regional trade in the NEM" December 2012 which provides significantly more information on the issue of congestion on interconnectors than the Commission has, even though interconnection was a core aspect of the terms of reference provided to the Commission.
5. **Network Cost Recovery from Customer Base – Cost Allocation:** This issue is not canvassed in the Commission's Draft Report but nonetheless Visy considers it to



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be a critical issue. While focus is applied to the approval, review or disapproval of total revenue to be collected by network businesses over a regulatory period, little focus is applied to how that revenue is recovered across the customer base. Visy's position is that regulation should be in place to cover the allocation of revenue across the customer base at the high level. For example, HV and LV customers alike should in principle bear the same increase, or decrease, in network cost/tariff on a proportionate basis – this would prevent the skewing of cost increase towards or away from particular customer bases. Additionally, thought should be given to the allocation of cost to cause – for example customers driving the need for network growth capital ought to bear a larger portion of revenue proportionately.

Yours sincerely,

A handwritten signature in dark ink, appearing to be "RH" or similar initials.

(Ron Hardwick)
Group Technical Consultant

(Royce DeSousa)
GM – Energy & Sustainability