# Submission to the Australian Energy Regulator

## TransGrid Revenue Proposal 2009/10 to 2013/14

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## Executive Summary

Norske Skog's Albury Mill purchases electricity from the NSW grid under long term contract and is directly connected to the grid. Electricity costs account for over 20% of the Mill's operating cost.

Norske Skog welcomes the opportunity to provide a submission on TransGrid's Revenue Proposal for the period 2009/10 to 2013/14 to the Australian Energy Regulator.

TransGrid's transmission network has operated reliably throughout the current regulatory period, with no power interruptions to Mill operations due to factors external to the Mill.

We recognise and expect TransGrid to plan for network upgrades and expansion.

Of concern to Norske Skog is TransGrid's inability to create pricing certainty, with Norske Skog recently experiencing transmission price increases of around 30% at very short notice due to two pass through events. Norske Skog manufactures and sells its newsprint at negotiated prices in the Australian market, where prices are set internationally. Norske Skog doesn't have the ability to pass such cost increases to its customers.

NSA request that the Australian Energy Regulator (AER) consider resetting pricing for the next regulatory period to better reflect the pricing principles design of the variable usage and exit charges which should be based on time-usage, differentiation geographically and designed to indicate the short run marginal cost of the transmission network

The majority of the proposed capital program for the next regulatory period will be carried out north of an imaginary line drawn from The Illawarra to Western NSW. NSA believe that the application of the above pricing principles will create a satisfactory outcome for all parties, where all parties should contribute by way of the common and general services charges to network stability and by way of the variable usage and exit charges for costs incurred for geographically located programs.

TransGrid has identified a number of events for which it will seek to pass costs through to customers, effectively transferring all risks to its customers. NSA request that the AER apply the rigours of a competitive market to any pass through cost application and also ensure projects are not inflated by high allocations for project cost contingency

TransGrid outline an aggressive asset replacement and upgrade program and offer little by way of productivity improvement. NSA request that the AER ensure TransGrid deliver real and measurable productivity improvements for the proposed revenue period and that these benefits are passed back to TransGrid's customers.

It appears that the pricing is set to increase by around 30% from this pricing period to the next regulatory period further eroding the competitiveness of NSW industry at a time of uncertainty created by issues such as the introduction of an emission trading scheme and a general slowing of the economy. NSA believes it cannot adequately budget for transmission price increases given the level of uncertainty created by TransGrid's revenue proposal for the next regulatory period adding to the uncertainty of doing business in NSW. NSA believes NSW industry is entitled to receive a higher level of pricing certainty.

## Norske Skog's Operations

Norske Skog is a global newsprint producer with operations in Europe, South America, Asia, New Zealand and Australia.

Norske Skog manufactures and supplies approximately 90% of the Australian Newsprint Market from its Mills at Albury – NSW, Boyer – Tasmania and Kawerau – New Zealand. The newsprint market is a highly competitive environment where prices are set internationally.

The Norske Skog Albury Mill (NSA) purchases electricity from the NSW grid under long term contract and is directly connected to the grid. The Albury Mill has been in operation for over 26 years.

NSA employs approximately 260 people directly and many others indirectly in Regional NSW. NSA spends approximately $80 million per annum in the local Albury/Wodonga region and over a further $110 million per annum in greater NSW.

Newsprint production is energy intensive. Electrical demand is around 110MW with electricity costs accounting for over 20% of the Albury Mill operating cost. The Albury Mill is one of the larger energy users in NSW.

## Current Performance

TransGrid's transmission network has operated reliably throughout the current regulatory period, with no power interruptions to Mill operations due to factors external to the Mill.

NSA recognise and expect TransGrid to plan for network upgrades and expansion at a pace to satisfy increased demand and to keep the transmission network operating at a high level of stability and reliability.

There are however, a number of pricing, price allocation and uncertainty issues of concern to NSA. These are discussed further in this submission.

## Pricing Uncertainty

Industry needs certainty in which to operate. TransGrid has not delivered pricing certainty in the current regulatory period and is proposing similar uncertainty in the next regulatory period.

In the current regulatory period there have been two significant transmission price increases at short notice. The first was in December 2006 and the most recent price increase being two pass through events which increased transmission cost to NSA for the 2008/09 year in the order of 30% against an anticipated increase of some 8%.

NSA manufactures and sells its newsprint at negotiated prices in the Australian market, where prices are set internationally. We do not have the ability to pass such cost increases to our customers.

In the next regulatory period, TransGrid has identified a number of pass through events for which it will seek to pass costs through to customers, effectively transferring all the risks of its business and decisions to its customers. This creates an on-going price uncertainty for the next five years.

NSA requests that the Australian Energy Regulator (AER) act as and provide a level of "competition" and risk mitigation to the revenue proposal in the absence of a true electrical transmission market.

NSA also request that the AER apply the rigours of a competitive market to any future pass through cost application and also ensure projects are not inflated by high allocations for project cost contingency.

There appears to be little detail regarding the timing of individual projects including the cost and consequences of deferment. This requires consideration of the complete suite of projects over a longer term than the regulatory period and then the timing and sequence of individual projects.

Also of concern is the ongoing effect of recent high prices. It appears that the pricing is set to increase by around 30% from this pricing period to the next regulatory period further eroding the competitiveness of NSW industry at a time of uncertainty created by issues such as the introduction of an emission trading scheme and a general slowing of the economy.

## Pricing Principles and Allocation

The two recent pass through events have created price distortions for NSA in that they provide little if any benefit to NSA. Both pass through events are designed to benefit supply to Newcastle, Sydney and Wollongong areas. NSA is unable to participate in any demand side load management to benefit the pass through events.

NSA believes this recovery by way of the common and general service charges, is counter to the transmission pricing principles where the fixed service charges are to be levied to recover the fixed costs of the network in the least distortionary manner.

This is contrasted to the pricing principles and design of the variable usage and exit charges which are based on time-usage, differentiation geographically and designed to indicate the short run marginal cost of the transmission network.

For example, if these principles were applied to the recent pass through events, then cost recovery of these pass through events should be reflected in the variable usage tariff charges of customers in the Newcastle, Sydney and Wollongong areas.

NSA request that the AER consider resetting pricing for the next regulatory period to better reflect the pricing principles.

Under the proposed capital program for the next regulatory period, it appears the vast majority of this program will be carried out north of an imaginary line drawn from The Illawarra to Western NSW.

NSA believe that the application of the above pricing principles will create a satisfactory outcome for all parties, where all parties should contribute by way of the common and general services charges to ensure network stability and by way of the variable usage and exit charges for costs incurred for geographically located programs.

## Productivity Improvement

TransGrid outline an aggressive asset replacement and upgrade program and offer little by way of productivity improvement.

The operating cost forecast is for around a 30% increase when a large part of this program is to replace old and unreliable equipment with new high reliability and low maintenance equipment.

NSA request that the AER ensure TransGrid deliver real and measurable productivity improvements for the proposed revenue period and that these benefits are passed back to TransGrid's customers.

## Conclusion

NSA recognise and expect TransGrid to plan for network upgrades and expansion.

Coupled with this is a requirement to deliver a stable and reliable product and service to the advantage of NSW business and consumers.

TransGrid's proposed revenue plan for 2009/10 to 2013/14 is imposing further pricing uncertainty and we request that the AER act as the competitive market force to bring about a transparent predictable and robust plan.

Submitted on behalf of Norske Skog Albury Mill by

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