Briefing to Shadow Minister Macfarlane

Canberra

12 September 2012

Energy Users Rule Change Committee

Agenda

- Introduction to the RCC and the EUAA
- The AEMC's Draft Decision on the RCC's issues
- Consumer engagement
- General discussion on contemporary regulatory debate
  - Limited merits review
  - AEMC rule change review
  - Senate Inquiry

Introduction to the RCC and EUAA

- RCC's founding members: Amcor, Australian Paper, Wesfarmers, Westfield, Woolworths Rio Tinto, Simplot.
- RCC formed to proposed rule changes, focussing initially on the return on debt. Made rule change proposal to AEMC in October 2011, shortly after the AER's proposal
- Recent changes at the EUAA.
- RCC now to be absorbed by EUAA.

The RCC's rule change proposal

- Change methodological aspects of calculation of return on debt (important but very technical);

- Set return on debt for government-owned NSPs closer to the actual cost of debt. State governments' raise debt for around 4%, but AER allows them to earn a return of around 9%.

- Fees by state governments on the debt they issue to their NSPs are a major source of income (e.g. in 2010 NSW raised more income from income tax equivalents and debt guarantee fees than it raised in dividends from its NSPs)

- RCC's proposal would reduce average retail prices by around 7% on average in the NEM (but much higher in QLD, TAS and NSW) where government owns the NSPs.

AEMC's draft decision (on RCC's proposals)

- AEMC suggests AER should develop guidelines on how it will calculate the return on debt.

- AEMC has rejected the RCC's proposals that (state) government-owned NSPs should receive a return on debt based on their cost of debt on the basis of state's implementation of "competitive neutrality".

- The Commonwealth Government only applies the Competition Principles to businesses that compete in open markets. The States that own NSPs (NSW, QLD and TAS) also apply it to their monopolies. The AEMC therefore says that allowed return on debt for government-owned NSPs can not be set close to the actual cost of debt.

- The States' application of the Competition Principles Agreement to their network monopolies can not be justified against objective of good economic policy.

- The AEMC's support of the the States' position on this, does not serve the long term interest of consumers.

Consumer engagement

- RCC invited by Minister Ferguson to provide its views on consumer engagement.
- We suggest consideration of negotiated settlements as a way to empower electricity users

General discussion of other relevant issues

- AER's rule change proposals and AEMC's Draft Decision
- Limited Merits Review
- Demand side participation in the NEM
- Gas prices and impact of LNG
- Productivity Commission Review of benchmarking and transmission interconnection
- Senate Inquiry into Rising Electricity Prices
- November COAG meeting
- RET Review