

10 February 2011

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
Matter no. ERC0117



Dear Sir

Re: Matter No. ERC0117 - National Electricity Amendment (Application of Dual Marginal Loss Factors) Rule 2011

The Energy Users Association of Australia (EUAA) welcomes the opportunity to provide a submission to the Commission on the above matter.

The EUAA is the national association of electricity and gas users and has over 100 members, including many of Australia's largest energy users. We members spend substantial amounts on electricity every year and it is a major input cost to most of them. Many also operate in competitive product markets making it difficult to pass through cost increases. These members rely on continued access to competitively priced electricity to ensure their continued viability and significant contribution to the Australian economy. As you would be aware, there have been significant increases in electricity prices in recent years and many expect this to continue into the foreseeable future with known price pressures in areas such as networks (transmission and distribution), renewable energy and carbon already taking their toll. Year to year volatility in prices can also be problematic and this has been a major factor in recent years.

For the reasons set out in this letter my company supports the changes proposed by AEMO.

The marginal loss factors used in the wholesale market have a number of impacts on the prices EUAA members pay for electricity. Firstly, adjustments are made to the wholesale prices at transmission connection points in proportion to the values of these factors. Secondly, adjustments are made each year to the network charges paid by our members to reflect the average intra-regional settlement residues accrued to AEMO as a result of these loss factors. The impact of poorly set loss factors on these residues, and thus transmission prices, can be material.

It is therefore vital to the efficient pricing of our product for these factors to be set as accurately and as predictably as possible from year to year.

We believe that the AEMO proposal will help to avoid some of the problems mentioned above, help ensure continued access to competitively priced electricity and contribute to the National Electricity Objective.

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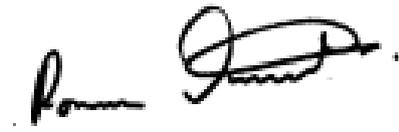
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AEMO clearly demonstrates the improvement in the accuracy of marginal loss factors in Table 1 on page 6 of its proposal (repeated for ease of reference in Attachment 1). This table shows that under the arrangements which have prevailed for the past three years the use of a single time weighted average marginal loss factor has resulted in generation being subjected to loss factors greater than unity. As we understand it this, effectively, subsidises the relevant generator's revenues and results in inefficient real time dispatch. That is, the lowest priced generators are not always dispatched before higher priced generators in the wholesale market.

However, the same table also shows that AEMO's proposal for a separate marginal loss factor to apply to these generators results in a loss factor less than unity, which is clearly more accurate. That is, the AEMO proposal produces more efficient wholesale market pricing and, therefore enhances the achievement of the National Electricity Objective. The more efficient dispatch that results from this proposal is clearly in the long term interests of consumers of electricity.

Finally, AEMO's proposal appears to be 'proportionate' to the problem to be solved. That is it is no more complex than necessary to remove most of the inaccuracy currently involved in setting marginal loss factors.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Roman Domanski', with a stylized flourish at the end.

Roman Domanski
Executive Director