

25th February 2011

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce,

Inter-regional Transmission Charging Draft Rule Determination

We appreciate being able to make a submission regarding the Commission's Inter-regional Transmission Charging Draft Rule Determination.

Norske Skog Paper Mills (Australia) Ltd is Australia's only manufacturer of newsprint. Norske Skog's Albury Mill has one paper machine with a capacity of approximately 275,000 tonnes per annum. The mill provides all of its output into the Australian newsprint market, supplying 40% of that market under medium term contracts. To achieve this, the Mill consumes approximately 730,000 MWh of electricity per annum (referenced to the regional node).

Norske Skog has two concerns. The first is that the cost implications for larger customers haven't been thoroughly taken into account. The second is that aspects of the proposed Rule change will distort efficient economic price signalling.

As a large user, transmission costs are a sizeable proportion (22%) of our total energy bill. Even though we are a large newsprint market player, the newsprint industry is an internationally competitive, price-taking market. We do not have the ability to pass cost increases through to our customers. We therefore think it is disingenuous to justify the Rule change on the basis that "small customers in NSW would experience on average a \$1.80 per quarter increase"¹ when the estimated impact on our operation of the proposed Rule change is over \$550,000 per annum.

Further, we load shed over 80,000MWh per annum during peak times across the year. Our production process is better served by continuous running rather than load shedding. We will be further penalised for supporting the network when it is under stress by the proposed rule change. There are other large users in the NEM operating in this manner who will be similarly penalised.

Other aspects of the proposed Rule change will also create perverse outcomes. Some that we have identified are:

- the passing through of State based taxes in the common service charges paid by customers in importing regions. In particular, postage stamping the Victorian tax on transmission easements will lead to customers in NSW, Tasmania and South Australia materially subsidising Victorian energy users. The tax bears no relationship to the underlying cost of supplying energy into other jurisdictions and should therefore continue to be recovered locally. Were a load export charge to be introduced, it should not include a component reflecting any costs for government taxes that were material;

¹ Refer AEMC Draft Rule Determination Summary.

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- more generally, prescribed local common transmission service charges should be excluded from any inter-regional transmission charges as they reflect local requirements. Export costs should only be based on the marginal costs associated with export. If not, there is a fundamental market distortion occurring;
- interconnector assets on the importing side also provide benefits to customers in the exporting region. Those benefits should be taken into account when assessing the merits of the Rule change and the calculation of any resulting load export charges; and
- the interconnectors provide a benefit to generators as well as customers but generators aren't required to contribute. It is the generators and TNSP's who best influence power importation, but who receive little pricing signal from the proposed rule change as it is only customers who pay – we cannot easily re-locate our operation, but sensible generation investment can influence the price.

We support costs being allocated appropriately. However, we submit that the financial impact of the Rule change on larger customers has not been adequately taken into account and that aspects of the proposed pricing methodology will distort efficient outcomes across the NEM. We ask that the Commission take these issues into consideration as part of this Rule change assessment. We also consider there is merit in the Commission considering that the rule change might best be considered as part of a broader Transmission Review and so provide better economic efficiency across the whole transmission network including the inter-regional network.

If you have any questions or require any clarification regarding our submission please contact Michael Machin, Business Development Manager on (02)6058 3089 or michael.machin@norskeskog.com.

Yours sincerely
Norske Skog Paper Mills (Australia) Ltd.


 Ernie Hacker
General Manager

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