

Major Employers Group



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Dear Sir/ Madam

Re: Economic Regulation of Network Service Providers – ERC 0134

The Major Employers Group (MEG) is a group of major energy intensive industrial companies that employ many thousands of people (directly and indirectly).

These companies provide substantial economic benefits for Tasmania but Australia in general. These companies are all highly trade exposed businesses and in recent times have “borne the brunt” of the large increases in electricity transmission charges (at least a doubling in the past 4 years). These increases have come at a time in a post GFC world where international markets remain volatile and trading conditions are challenging not least the competitiveness of these firms due to the high Australian dollar.

The MEG in principle broadly agrees with the AEMC’s draft determination in the areas of:

- Rate of return
- Capital expenditure incentives and allowances
- Providing more discretion and powers under the National Electricity Rules and National Gas Rules to the AER.

However, the Rules require the AER to diligently and rigorously apply the new frameworks to ensure only capex and opex that is efficient is allowed.

Under the previous regulatory regime, network revenue determinations failed to properly ensure this occurred for instance, there was no requirement under the Rules to conduct ex-post capex audits, apply benchmarking for capex and opex or ensure network companies were incentivized to reduce capex and hence cost outcomes for consumers. Furthermore, the WACC used in these determinations was too often far in excess of the risk profile these businesses were exposed to. It is arguable that this regulatory regime actually satisfied the National Electricity Objective. These gaps have led to significant detriment for consumers and it is doubtful that consumers have seen commensurate and proportional improvements in network performance and reliability as a result. Accordingly the AER will require significant resources and realignment of its organization to better equip itself in applying the new frameworks to deliver better revenue determinations at lowest cost to consumers.

The MEG trusts that the AEMC final determination will provide a more commercially reasonable balance between network reliability/ risk and investment and network pricing consumers must bear.

Yours faithfully

Terry Long
Chair, MEG