



**Australian Paper**

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

your ref: ERC0123

25<sup>th</sup> May, 2011

Dear John,

**Australian Paper's submission on AEMC Consultation Paper National Electricity Amendment (Potential Generator Market Power in the NEM) Rule 2011**

Thank you for the opportunity to provide a submission in response to your consultation paper on the proposed rule change submitted by the Major Energy Users Inc.

Australian Paper is a manufacturer with significant operations in both regional Australia and the suburbs of capital cities. Our business is energy intensive and exposed to competition from international companies. In line with other manufacturing businesses we are facing intense competition and falling prices, in real terms, for our products. In order to survive Australian Paper has had to find cost reductions of a similar order to the price reductions – more than 2% each year in inflation adjusted terms. Some of this has been achieved by increased scale of operation, some by automation, some by head count reductions and some by competitive global sourcing of inputs, but none of these actions can address the costs of escalating Government-imposed regulation, fees and charges and rapidly rising costs from non-import-competing suppliers such as energy, water and other semi-regulated services.

The ever-rising cost of electricity, largely as a result of increasing network charges and renewable energy subsidies is of grave concern to us. The increased costs are, to a limited extent, manageable via contract negotiations for the supply of electrical energy. The regulated costs fall outside the commercial negotiation arena. The non-commercial or regulated costs are an ever increasing percentage of our spend on energy which, in turn, emphasises the necessity of having a regulated electricity supply industry that is operating in a well managed and efficient manner. We are of the opinion that this is not happening at present.

In the area where we do have a measure of control, the negotiation of energy supply contracts with retailers or generators, we do have concerns about the application of market power by generators and the subsequent impact that this has on pricing signals and the flow-on effect to the electricity contract market.

This is an extremely complex issue and at this point Australian Paper has not undertaken the necessary in-depth analysis that would be required to support the allegation of misuse of market power. Given the complexity of the issue and the resources required to adequately assess this situation, Australian Paper will be entering into a consortium with other large

energy users to review this problem in depth. It is our consideration that energy prices are being unreasonably influenced by generator behaviour and current national electricity market rules, in particular we would query:

- Why are electricity prices rising so strongly in the face of stable production prices? This is evident across the NEM but is particularly strong in South Australia and New South Wales
- It would appear that there is very little inter-nodal or inter-regional contracting taking place between generators and retailers – to the detriment of consumers.
- Why have existing rules not been altered in respect to generator bidding and rebidding?  
We are concerned about the ability of a generator to remove generation from the market and subsequently make that generation available at a higher price.
- Why has electricity reform failed?  
There are no examples of stand-alone new entrant generators or retailers in the NEM.

Vertical integration of electricity market participants has led to a re-aggregation of market power to the point where the NEM is dominated by three major players: AGL Energy, Origin Energy and TRUenergy. This is particularly the case in South Australia and AGL Energy's dominance there – a point which we believe has attracted the attention of the ACCC.

Australian Paper acknowledges the complexity of the issue that has been raised by the MEU's application and encourages the AEMC to support it by means of the assessment framework set out in your consultation document.

In particular, Australian Paper would encourage the AEMC to use the MEU's application as an opportunity to conduct a detailed examination of the possible existence of market power and to determine the most appropriate method of addressing the issue. In considering the approach set out in the AEMC's assessment framework it would appear that this is the approach that the AEMC has adopted.

Alternatively, under section 91 A of the National Electricity Law, the AEMC may make a more preferable Rule, if it is satisfied that this approach would provide a better outcome for the issues under consideration, than the Rule Change request raised by the MEU.

It is Australian Paper's contention that there is a pressing need for the AEMC to consider all ways by which competitive outcomes may be achieved in the wholesale electricity market and to actively promote and implement such measures.

Yours sincerely,



Brian Green  
Procurement Manager, Energy and Utilities  
Australian Paper