

27 July 2021

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne, Victoria, 3001

By email to: AEMO2021@aer.gov.au

Dear Warwick

**AEMO transmission pricing proposal 2022-2027
Response to Issues Paper**

Major Energy Users Inc (MEU) is pleased for the opportunity to provide its views responding to the AER Issues Paper on the AEMO electricity transmission pricing proposal proposed for Victoria.

About the MEU

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those supplies, the quality of the delivered supplies and the long-term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on local staff, suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

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The MEU stresses that the views expressed in this response are based on looking at the issues from the perspective of consumers of electricity and it has not attempted to provide any significant analysis on how the proposed changes might impact other stakeholders.

Generally, the MEU supports the proposed pricing approach but has a few concerns that need to be addressed.

1. The MEU is strongly of the view that transmission (and distribution) network pricing must be as cost reflective as possible, and this effectively means that flat predictable loads should not be cross-subsidising peaky and less predictable loads or vice versa.

In discussions with MEU members, AEMO posited that the change they propose (ie MD10 to annual average of monthly peak demands) is needed to reflect the change in the generation mix and locality, and that the change should provide a more equitable allocation of transmission costs. However, despite this assurance, AEMO has not demonstrated that this is the case¹ and so there is no certainty that the new approach delivers a more equitable and cost reflective approach for transmission pricing.

The rules require that the pricing approach must be cost reflective, so AEMO needs to demonstrate that its new approach complies with this requirement. Therefore, the AER should require AEMO to provide examples to demonstrate that the new approach is more cost reflective than that currently used.

2. The MEU has consistently stressed that data used by AEMO (and the AER) for settings in the energy markets should be based on the most recent data available, rather than using outdated data. In its proposal, AEMO proposes to use data from the most recently completed full financial year in developing its pricing for the next financial year – effectively using data that will be up to 21 months out of date as this approach will introduce a lag of some nine months between the end of the completed financial year and when the pricing for the next financial year is developed. In contrast, the existing pricing approach uses data up to the end of February in the current financial year to develop pricing for the coming financial year.

The MEU does not support using outdated data when more current data is available as this introduces unnecessary inaccuracy and therefore inefficiency. The MEU considers that the timing for acquiring data should continue to use the current approach of using data close off at the end of February (or even the end of March if possible) when developing its pricing.

3. The MEU is pleased to note that changes in the pricing will be subject to the side constraint of +/- 2% per annum.

¹ AEMO asserted that they could not demonstrate this due to the apparent complexity in the calculations.

4. The MEU recognises the potential for occasional negative flows at some connection points in the transmission networks. As the network is designed to deliver supplies to major load centres from generators, it makes sense that the data reflecting usage at each connection point is not inappropriately biased by including negative amounts. The MEU supports the approach to exclude negative flows (ie to set them to zero) in the calculation of transmission pricing.
5. The MEU has consistently been of the view that where the power flows from the grid to an end user should incur a network cost related to the peak demand of the flow². The MEU therefore considers that any inflow to a storage device should carry its share of transmission costs like any other end user. With this in mind, the MEU does not agree with the AER view that storage devices should have been or should continue to be exempt from transmission charges when acting as a consumer of electricity. The MEU considers that the AER should change its policy in this regard.

Being consistent with its views on consumers of electricity paying transmission charges, the MEU agrees with the circumstances proposed by AEMO for some storage being liable for transmission charges but considers that all storage should pay for use of the transmission system.

The MEU members have commented that the consumer engagement undertaken by AEMO for this proposed change has been much better than in the past, and that AEMO should be congratulated for this improvement. AEMO should continue this improvement trend in the coming years.

Should the AER require additional explanation as to the concerns expressed herein, please contact the undersigned at [REDACTED] or [REDACTED].

Yours sincerely

[REDACTED]

David Headberry
Public Officer

² For example, the MEU considers that a generator which has significant inwards flow for supplying ancillary devices when not generating should be treated as a consumer, although the MEU accepts that this concept has been rejected in the past