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Mr Chris Pattas  
General Manager  
Network Regulation South  
Australian Energy Regulator  
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Dear Mr Pattas

**AER Draft Determination on Regulatory Proposal Submitted by Jemena Electricity Networks (Vic) Ltd (JEN)**

Visy Pulp & Paper (Visy) welcomes the opportunity to provide comments on the AER's Draft Determination on the regulatory proposal and revised regulatory proposal submitted by JEN.

Visy is a major manufacturer of paper, pulp and cardboard. Consequently, Visy is a major end user of electricity, and the excessive price increases sought in network charges by JEN will affect the competitive position of Visy's plants and have implications for employment opportunities.

Visy has two key sites in the JEN network – the Coolaroo site (with 2 paper mills and 6 major industrial facilities in total) and the Reservoir site (with 1 paper mill and 1 speciality packaging operation). The Coolaroo site, in particular, is a large employer of labour directly and indirectly, of contractors and subcontractors. Visy also has smaller sites and electrical load in JEN's network and in other parts of Melbourne and Victoria also affected by potentially excessive network price increases.

Electricity consumption in the two large sites averages around 23.8 MW, being a relatively flat load with high load factor. The sites' load history has been quite stable over the past 5 years, although the Reservoir site has slightly reduced load.

The load history over the recent past 5 years is shown below:

<u>Year</u>	<u>Coolaroo</u> (MW, average)	<u>Reservoir</u> (MW, average)
2005/06	18.7	4.3
2006/07	19.9	4.4
2007/08	20.0	4.2
2008/09	19.8	4.2
2009/10	19.6	4.2

The above figures show relatively stable movements in load over the past five years, with some movements due to plant upgrades and expansions.

Coolaroo will be commissioning a multi-fuel co-generation plant by June 2011, with the plant up at full capacity by December 2011.

Visy expects to reduce load demand by at least 2 MW at the Coolaroo site (when combined with energy efficiency initiatives), so that demand would average 18 MW. The intention is that even with potential incremental productivity at the site, electricity consumption would be relatively flat over the next 3 to 4 years post June 2011.

As for the Reservoir site, the average demand for electricity has dropped in the context of longer term history of the site, and demand is expected to stay at current levels, although it could decline modestly.

Visy notes and supports, the AER's Draft Determination in taking (in part) a ten-year assessment of the Victorian distributors' (including JEN's) operations in assessing efficient costs. JEN has acknowledged this, viz:

"JEN has responded to its regulatory incentives and, as a result, JEN's network is in good shape and JEN is highly efficient compared to its peers. Its service reliability levels are excellent..."

(JEN Revised Regulatory Proposal, p.1)

Visy also supports the AER's careful adoption of a trade-off between maintenance opex and new capex replacement and in accepting only clearly identified step-up opex changes from the base opex.

Visy considers that JEN's regulatory proposal and revised regulatory proposal contain significant ambit claims. The AER is urged to assess JEN's claims in the following areas:

- Forecast electricity consumption and JEN's capex proposals, particularly as they affect large businesses, in both cases may be at odds with projected reality in light of the above information provided by Visy on its relatively flat load demand (albeit with a very small decrease) over the next regulatory period (bearing in

mind that in a price cap review, the applicant has an incentive to project a low energy consumption figure).

- Recognise that related party transactions can be an incentive to over-recover costs and the AER is correct in that Jemena Asset Management (JAM) should not be allowed to recover a margin on work that is sub-contracted, thereby leading to a cascading of costs. Sub-contracting is normally undertaken to reduce costs, and not to increase the margins for JAM and hence increase the costs for JEN.
- JEN has acknowledged that past regulation by the ESCV has resulted in JEN being “highly efficient compared to its peers” and the AER is correct in accepting only clearly identified step changes in opex.

The AER’s Draft Determination is correct in taking a longer-term perspective in order to iron out short-term volatility. This is a solid principle for regulatory best practice. However, the AER appears to be internally inconsistent in that,

- It used a long term average of market risk premium even though the short term volatility is very high. The AER should therefore take a longer term view on other inputs which vary the outcomes, such as
  - o The debt risk premium which has some very short term volatility eg moving from 4.5% 9 months ago to ~3% now. Debt is sourced over the long term but the assumption made is that it will be sourced at the time of the Final Decision
  - o The extreme volatility in the forecasts of future materials changes, as these are based on today’s estimates although the expenditure will be incurred in many years time.

Accordingly, Visy recommends that debt and materials indices should be averaged over a longer term to smooth out the volatility.

Visy would be pleased to provide further explanation on this submission, if required.

Yours sincerely,



(Royce DeSousa)

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