Mr Phillip Weickhardt
Miss Wendy Craik
Electricity Network Inquiry
Productivity Commission
PO Box 1428
Canberra City ACT 2601

Dear Commissioners

Electricity Network Inquiry

Loy Yang Marketing Management Company Pty.Ltd. (LYMMCo) welcomes the opportunity to provide the following submission to the Productivity Commission *Electricity Network Regulation Issues Paper* (Issues Paper).

By way of background, LYMMCo trades the largest privately-owned generator in the National Electricity Market (NEM). In total, LYMMCo trades in excess of 2,200 MW which is approximately one third of Victoria's electricity needs and more than 8% of the total generation for the south-east of Australia.

The Issues Paper notes that rising network costs have been the primary driver of electricity price increases over the last five years and further that 'future retail electricity prices — at least partly locked in through regulatory agreements — are projected to increase by 29 per cent from 2011-12 to 2013-14, with network costs the main contributor'[1].

Of relevance to the Commission's finding, the Investment Reference Group, in its report to the Commonwealth Minister for Energy and Resources, estimated that by 2030 an additional $144 billion could be needed in the National Electricity Market for transmission ($24 billion) and distribution networks ($120 billion)[2].

Given the immediate identified increase in electricity prices with 'network costs the main contributor' and the projected investment in networks as identified by the Investment Reference Group, LYMMCo considers that an assessment of whether an alternative approach to determining network revenues may be more efficient is appropriate.

[1] Productivity Commission *Electricity Network Regulation Issues Paper* February 2012. (pg.1). Available at: http://www.pc.gov.au/__data/assets/pdf_file/0017/115541/electricity-issues-paper.pdf
[2] Investment Reference Group, *Report to the Commonwealth Minister for Resources and Energy*, Department of Resources, Energy and Tourism, 2011.

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LYMMCo has not specifically addressed each of the questions asked in the Issues Paper but has structured its submission to align with the Papers themes; benchmarking, interconnection and demand-side management.

Benchmarking

LYMMCo supports amendments to the current building block approach to calculating network service provider rates of return where such amendments improve efficiency by appropriately aligning costs and by, for example, incorporating a performance incentive scheme.

The significant growth in network service costs in the recent past, as identified in the Issues Paper, underscores the importance of making sure that the manner in which network service provider returns are calculated – and subsequently recovered – is as efficient as possible.

However, LYMMCo notes that transitioning to a benchmarking regime may be difficult to implement given the asymmetry of information issues that will continue to exist – even with an amended approach – and the fact that it may be difficult to effectively cross compare network service providers costs due to differing economies of scale and geographic locations.

Interconnection

As the Issues Paper notes interconnectors play an important role in allowing the transfer of electricity between jurisdictions. Thereby facilitating competition and improving electricity reliability.

In order to preserve the value of this benefit, we consider that an interconnector's capacity should be maintained over its life and not eroded by, for example, investment in new generation capacity. This could be accomplished by the adoption of interconnector reliability standards. Such an approach would considerably reduce the uncertainty that currently exists – with regards to future interconnector carrying capacity – for market participants.

With regards to the level of interconnector investment in the NEM, in our recent submission to the Australian Energy Market Commission (AEMC) Transmission Frameworks Review, we argued that a National Transmission Planner should be introduced in order to carry out all transmission planning activities for each region in the NEM. We suggested that the transmission planning arrangements in South Australia reflect a working template. We consider that such an entity could provide an effective instrument by which to improve investment in transmission infrastructure in the NEM.

Demand-Side Management

Eliciting an effective response from the demand-side in the NEM remains an elusive goal. With largely disparate load sources, government price setting and historically inelastic demand it is inevitable that this issue will remain 'live' for some time.

A number of reviews have, and continue to, investigate whether an effective demand-side response can be orchestrated[3]. What is clear is that exposure to efficient prices is likely to be the most significant driver of change to end use electricity demand. However, this is unlikely to happen whilst retail price setting remains largely in the hands of government. For example, as the Issues Paper notes even though smart meters have been introduced in Victoria, the Victorian Government has introduced a moratorium on time-of-use pricing – effectively removing any benefit from switching meters.

We do not consider that additional energy efficiency measures are needed to elicit a demand-side response. As we recently noted in our submission to the Department of Climate Change and Energy Efficiency's *National Energy Savings Initiative Issues Paper*, the some 300 energy efficiency measures currently in place nationally reflects inefficient policy duplication and unnecessary regulation.

Yours sincerely

Mr Simon Camroux
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[3] Most recently, the AEMC has released a report titled Power of Choice focussed specifically on demand side management/participation.