

24 May 2010

Senator Cormann
Chair
Senate Select Committee on Fuel and Energy
PO Box 6100
Parliament House
Canberra ACT 2600

50 Pirie Street
Adelaide SA 5000

Postal Address:
GPO Box 2010
Adelaide SA 5001

T 08 8201 7300
F 08 8410 8545

By email: fuelenergy.sen@aph.gov.au

Dear Senator Cormann

Request for views: Assessment of the impacts of the proposed “Resource Super Profits Tax”

AEMO’s responsibilities include:

- day to day management of wholesale energy market operations across eastern and southern Australia;
- day to day management of retail energy market operations;
- overseeing system security of the NEM electricity grid and the Victorian gas transmission network;
- management of emergencies under protocols;
- a range of planning functions including, from the end of 2010, national transmission planning; and
- on-going market development required to incorporate new rules, infrastructure and participants including the imminent establishment of a Short Term Trading Market for gas in Sydney and Adelaide.

AEMO is not a tax paying entity and the proposed Resource Super Profits Tax (RSPT) would not apply to us. Based on the limited information available, it appears that the proposed RSPT could apply to many corporations that either participate in energy markets we operate, supply fuel to energy market participants or are customers of energy market participants. The information available also suggests that the potential impacts are not simple to estimate and would need to be assessed on a case by case basis. We would not speculate on what those impacts, either positive or negative, might be.

As we do not have any assessment of the actual impacts of the proposed tax on various participants, it is not possible for us to answer the specific questions in your letter. That is

not to say that the proposed tax may not have significant impacts on the energy industry and the markets we operate.

We would note that there are a range of fuels used by generators in the national electricity market. Some of these are from captive sources and others are supplied by third parties. Some of the fuels used would be of a grade and location that they are potentially tradeable commodities where others may not. In many cases, fuels may be supplied to generators under long term contractual arrangements. The impact of any tax on the cost of generation would then not only relate to the incidence of the tax on the supplier but also the specific terms of the contract between parties.

The wholesale spot price of electricity is set from the price of the marginal offer. Should a generator suffer an increase in marginal fuel supply cost due to the processes described above, it would be expected that its marginal offer price would increase as a consequence. Where those impacts fall differently on different participants, they could also impact on relative competitiveness and the dispatch of generation. Any impacts of the proposed tax will first be observed in the short term market outcomes. There may also be longer term impacts arising from any changes in the investment outlook for the various sectors of the energy industry.

It should also be noted that extractive and processing industries represent a significant proportion of energy demand in our markets. Forecast future demand for energy is premised upon strong growth in these sectors. Any change to investment in these industries, either positive or negative, would impact on future energy demand.

Thank you for your letter and the opportunity to respond to the Committee.

Yours sincerely

David Swift
Executive General Manager, Corporate Development