Ref: JC:JC:c518464

10 December 2007

Mr Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Buckley

Matters relevant to distribution determinations for ACT and NSW DNSPs for 2009-2014 - Issues paper

Country Energy appreciates the opportunity to respond to the issues paper on matters relevant to distribution determinations for ACT and NSW DNSPs for 2009-2014 (the paper).

Country Energy understands that unless there is sufficient time to consider and implement changes to the existing arrangements, or there is a clear reason to change existing arrangements, the AER will generally consider maintaining the approaches taken by the Independent Pricing and Regulatory Tribunal (IPART) in the current regulatory period. Country Energy supports this practical approach and looks forward to continuing to work with the Australian Energy Regulator (AER) in the development of the demand management incentive scheme, control mechanisms for alternative control services and the approach to determining materiality for possible pass through events.

Demand management incentive scheme

Country Energy fully supports the continuation of the current NSW D-factor scheme. While the D-factor itself is not a complete solution for creating demand management incentives, it does assist in removing disincentives created by the weighted average price cap form of price control that is used in the current regulatory period and will be used again in the upcoming regulatory period.

Country Energy believes that the operation of the D-factor mechanism should be broadened to create further incentives for demand management. However, given the lack of time available to make major changes, Country Energy believes that at a minimum, maintaining the current D-factor mechanism would be appropriate for the next regulatory period.

The current D-factor scheme is limited to solutions for constraints that are at a specific location in the network. The primary difficulty for Country Energy is identifying cost effective technologies that can be applied to individual network constraints. Country Energy has undertaken a number of demand management projects outside the current scheme, however these have generally proven to be less than cost effective, with technologies expensive and still under development.

There is a need for a range of incentives to encourage investment in the development of cost effective alternatives to network augmentation. This is particularly true at the distribution level in weak rural systems where augmentation costs are high in relation to the loads serviced.

A significant proportion of Country Energy's capital program is driven by rapid growth areas, quality of supply issues and radial line reliability. This limits the effectiveness of many demand management technologies. The current D-factor scheme is not suitable for use in many parts of Country Energy's distribution area where the major requirement is supply reliability.

Country Energy believes that in the short term, the demand management incentive scheme could be expanded by introducing a learning-by-doing fund, such as that proposed in the paper. A learning-by-doing fund would allow for further development in enabling technologies, and include programs that encompass broad initiatives, rather than being solely concentrated on specific network constraints. The AER would need to ensure there was adequate guidance provided to distribution businesses in regard to the type of initiatives covered and the appropriate timing of cost recovery under a learning-by-doing fund.

The AER could then continue development of a more comprehensive demand management incentive scheme as part of the generic package to be developed as part of the general Chapter 6 rules. Continuance of the D-factor complemented by a learn-by-doing fund will assist the distribution business in investigating the use of innovative technologies, particularly on rural distribution networks.

Control mechanism for alternative control services

Country Energy notes the AER's view that the current IPART excluded services rule may not fit within the alternative control services framework. However we believe that the practical operation of the excluded services rule would likely satisfy the new rules for alternative control services. Country Energy currently submits a schedule of fixed prices based on established efficient capital and operating costs at each public lighting price change application. This application is then reviewed and approved by IPART.

Given the limited time remaining between the finalisation of the control mechanism for control services and the date for Country Energy's regulatory submission, we believe that the current process should be continued with one minor enhancement. Country Energy suggests that a fixed price schedule and future price path is approved at the beginning of the regulatory period, rather than following the repetitive and costly annual process currently utilised under the excluded services rule.

Country Energy supports a process whereby the AER would determine the efficient capital and operating costs associated with the construction and maintenance of public lighting infrastructure within our distribution area, rather than a full building block evaluation based on a yet to be determined asset base. The NSW Public Lighting Code outlines the service levels currently required for the efficient operation of public lighting and is one reference that the AER could use to assess efficiency. Country Energy's capital and operating costs have also been examined and approved by IPART for the past three years and these costs can be used as a starting point for assessment with the AER.

Once the AER is satisfied of the efficient cost levels, it could set a schedule of fixed prices for the initial year of the next regulatory period. These prices could then be rolled forward and approved using a cost escalator consistent with that used in the escalation of the standard control services at each annual pricing proposal.

Guideline on determining materiality for pass through events

The transitional rules provide that a pass through event that has a material impact on the costs of providing direct control services may, subject to the AER's approval, be passed through to consumers. Country Energy has continually detailed its preference for a materiality threshold to be stated in the rules. In the absence of this, Country Energy supports the AER's position to transparently determine a materiality threshold at the beginning of the regulatory period.

Country Energy appreciates the AER's intention to clarify the definition for the threshold trigger. This will assist in avoiding unintended confusion if a pass through event were to occur during the regulatory period. Country Energy believes the threshold should be either a set level of revenue impact or cost impact of the event. The event should be assessed from both a revenue and cost impact basis, and if either threshold is breached, then the pass through event would be triggered.

Country Energy sees some merit in setting a dollar amount as the threshold at the start of the regulatory period for both revenue and cost impacts. This is a practical and simple approach that would create certainty for all stakeholders at the commencement of the regulatory period.

Country Energy would be pleased to discuss the matters raised in this submission with the AER. If you require further information or clarification in relation to this submission please feel free to contact Natalie Banicevic on 02 6589 8419 or Jason Cooke on 02 6338 3685.

Yours sincerely

Bill Frewen
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