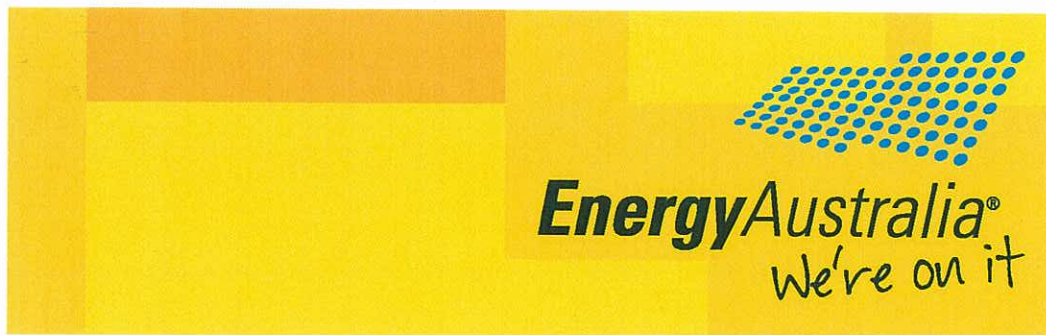


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8 August 2008

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

By email to: aer inquiry@aer.gov.au

Dear Mr Buckley,

Response to AER's request for submissions on NSW DNSPs' regulatory proposals

EnergyAustralia welcomes the opportunity to respond to the AER's request for submissions on NSW DNSPs' regulatory proposals. Please note that we will provide comments on the AER's proposed negotiable component criteria for each NSW DNSP and the AER's proposed negotiated distribution service criteria for EnergyAustralia in a separate response.

This is a timely opportunity to reiterate key points of EnergyAustralia's regulatory proposal. We note that:

- The key challenges underlying EnergyAustralia's regulatory proposal include a disconnect between energy consumption and summer peak demand growth, a requirement to meet mandated licence conditions and the need to replace an aging network.
- EnergyAustralia's total forecast capital expenditure and operating expenditures in its regulatory proposal reflect these key challenges and are required to achieve the capital expenditure objectives and operating expenditure objectives in the Rules.

We would also like to take this opportunity to respond to the issues raised by interested stakeholders at the AER's public forum (forum) of 30 July 2008. EnergyAustralia submits that:

- Recent bulk supply point (BSP) data provides further evidence that peak demand is significantly exceeding energy growth forecasts.
- EnergyAustralia has effective and efficient strategies in place, and has significantly progressed implementation of these strategies to ensure deliverability of the capital expenditure program.
- EnergyAustralia's proposal on public lighting reflects efficient and cost reflective pricing.

Recent data supports EnergyAustralia's load forecasts

The forum raised issues about the veracity of peak demand and energy growth forecasts provided in TransGrid and NSW DNSP proposals. EnergyAustralia submits that recent data available after the submission of its revenue proposal, supports the peak demand and load forecasts put forward by EnergyAustralia.

EnergyAustralia's BSP data for June and July 2008 provides further evidence for EnergyAustralia's key contention that the underlying rate of growth in peak demand of the network has significantly exceeded the rate of growth in annual energy consumption. The July 2008 data shows a 4.2 per cent growth in peak demand compared to the winter peak demand for 2007. Conversely, weather corrected energy growth for July 2008 was extremely weak compared to July 2007 at -1.2 per cent. While EnergyAustralia has not undertaken a full analysis of the BSP data, we consider that the information suggests that EnergyAustralia may have in fact underestimated the extent of the disconnect between underlying peak demand and energy growth.

EnergyAustralia has strategies in place to deliver the capital expenditure program

We also wish to address the concerns by some stakeholders on the capability of EnergyAustralia to deliver its capital investment program. EnergyAustralia has given specific consideration to, and developed effective strategies for, the delivery of the program.

As noted in our regulatory proposal, EnergyAustralia specifically considered the proposed profile of capital expenditure to ensure that it was prudent and efficient. For instance, EnergyAustralia undertook a smoothing analysis of capital expenditure based on an achievable 'ramp rate' for system investment of \$200 million per annum. The purpose of the smoothing analysis was to determine the limit to which investment projects could be deferred while still achieving compliance with our licence obligations. Based on the options examined by EnergyAustralia, only one smoothing option delivered a program that was both deliverable and would achieve compliance with our licence obligations.

EnergyAustralia notes the concerns from user groups that, despite the smoothing analysis undertaken, the capital program forecast still represents a significant challenge for EnergyAustralia within a resource constrained market. It is for this reason that EnergyAustralia has developed a multi pronged approach to the delivery of the capex program. As noted in our regulatory proposal, EnergyAustralia has:

- Increased capability of EnergyAustralia staff, by increasing the field based workforce by 37 per cent and through introducing new IT systems to help staff work more efficiently.
- Outsourced major projects including civil construction and cable laying, architectural design and construction of substations and by utilising 'design and construct' style contracts.

We also note in our regulatory proposal that EnergyAustralia is undertaking industrial negotiations that will increase the amount of work available to accredited service providers (ASPs). This will free-up internal resources to undertake the works required in the forecast capital investment program. For instance, since the submission of our regulatory proposal, we have significantly progressed the establishment of alliance agreements with major infrastructure groups to deliver parts of the 2009-14 capital program. EnergyAustralia has also reduced the level of resources allocated to contestable work in New South Wales. This is evidenced in recent data which demonstrates that EnergyAustralia has significantly reduced the amount of work it undertakes on level 1 contestable work.

EnergyAustralia's public lighting services proposal is efficient and cost reflective

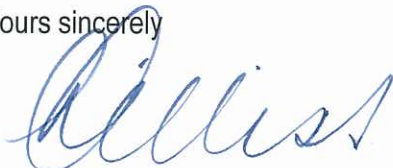
EnergyAustralia also noted the issues raised by the local Councils at the forum in respect of increased prices for public lighting. EnergyAustralia contends that its proposal on public lighting is consistent with the Rules, and establishes an efficient and cost reflective basis for the prices of these services. Further, we consider the method underlying the public lighting proposal is robust and transparent, and provides efficient price signals for customers.

The issues surrounding the recent increases in the price of public lighting services are largely a consequence of IPART's decision in 2004 to categorise public lighting as an excluded service. This has required EnergyAustralia to unwind the historical subsidy provided by network tariffs, and to introduce cost reflective prices for public lighting.

This regulatory proposal completes the transition to cost reflective pricing, subject to a transitional rebate mechanism to manage price impacts. EnergyAustralia is foregoing \$8.8 million in revenue for the 2009-14 regulatory period by voluntarily implementing this transitional rebate mechanism. It should also be noted that the move to cost reflective pricing will result in less revenue for EnergyAustralia than by applying the AER's proposed asset base roll forward approach, even before application of the voluntary rebate mechanism.

EnergyAustralia looks forward to the opportunity to respond to the concerns of interested parties raised in written submissions. Should you have any questions in relation to this submission please contact Ms Catherine O'Neill on (02) 9269 4171.

Yours sincerely



Geoff Lilliss

Executive General Manager - Network

EnergyAustralia