

Ref: 32045.02

20 August, 2008

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

Dear Mr Buckley,

**RE: REVIEW OF NSW DNSP REGULATION PROPOSALS FOR 2009 – 2014
IMPACTS OF PRICE INCREASES ON LOCAL GOVERNMENT IN WESTERN
SYDNEY**

WSROC wishes to express major concerns about the increases in electricity network supply charges being proposed by both Energy Australia and Integral Energy, currently subject to Review by the AER. WSROC also understands that councils were not directly informed of the review of DNSP regulation proposals, the notification for which only extended to a national newspaper advertisement and the AER website.

Despite the short notice, a number of WSROC member councils were able to attend the information session held a week prior to the deadline for submission. These councils advised WSROC that the information provided to them at this time did not appropriately explain or justify the proposed increases. It is understood that some additional documents, containing the detailed costings used to justify some of the increases, have since been made available, while others are still outstanding.

Accordingly, WSROC seeks an extension to the deadline for lodgement of submissions to this Review to at least 22nd August (assuming the requested documents are available by Monday 11th August), allowing time for our member councils to analyse and prepare their advice on the impact of the proposals of both Energy Australia and Integral Energy.

However, irrespective of the details provided in these documents, there are a number of issues that WSROC would argue are important considerations in a review of

electricity network regulation and pricing at this time. These issues are briefly outlined below and will be further elaborated upon in the forthcoming submission.

Relative Pricing of Network Costs and Energy Usage in View of Climate Change and Energy Policy

WSROC believes that given the need for Australia to reduce its greenhouse gas emissions, energy policy and market regulation should encourage increased energy efficiencies and reductions in overall energy usage. To this end WSROC would argue that governments should seek to shift the balance of costs for electricity towards the usage component and away from the fixed network charge component. In the context of this Review it would therefore be appropriate that increases to fixed network charges be refused, reduced or otherwise kept to a minimum.

The introduction of the National ETS from 2010 is anticipated to have a significant impact upon energy usage charges to consumers, notwithstanding the issuing of carbon emission permits to electricity generators that is being contemplated by the Federal Government. The price of energy will be one of the levers that will be used to encourage energy efficiency and increase the viability of new technologies for carbon neutral electricity generation.

A determination now that entrenches high network charges until 2014 risks compromising the restructuring of energy charges towards energy efficiency through the National ETS and other government policy initiatives in response to climate change.

Service Standards

Over the past year or more WSROC has noted repeated concerns raised by member councils relating to underperformance by the electricity providers with regard to their maintenance and service agreements, particularly extensive delays in restoring failed street lights and generally slow response times.

It is of concern to WSROC that these problems may stem from the lack of competition in network supply, rendering ineffective the complaint and resolution mechanisms in the agreements for service and maintenance. If this is the case, it would represent a fundamental failure of the market regulation system that should be examined in this Review process.

WSROC urges the AER to carefully consider and, if necessary investigate, the complaints made by councils regarding maintenance of street lights and general service standards.

Through this Review the AER should ensure that effective mechanisms to resolve equipment failure are put in place which will provide real incentives to electricity suppliers to meet their service commitments.

Complexity and lack of Transparency in Network and Usage Charges

Initial discussions with councils have indicated that there is a significant issue regarding complexity and lack of transparency in the determination and application of various network and usage charges. For example, the proposals by Integral Energy outline a range of both fixed and variable charges applying to streetlights and various metered facilities. Increases in the fixed charge for the provision of the street light hardware (not the power) are estimated from the light price listing (which listing was only made available upon request) to be approximately 22% for 2009 – 2014. Other fixed network charges, and a “variable” component of the network charges, are proposed to increase by 45%, with no apparent justification. Furthermore, how these charges are applied to different facilities varies for no discernable reason and estimating the impact of increases therefore requires individual calculations for each metered facility, of which a single council may have hundreds.

This example would suggest that the AER should review the system, logic and justification for the setting and reporting of charges. The charging structure should be appropriate to achieve energy efficiency and environmental goals, should not be unnecessarily complex and the application of the various charges should be transparent.

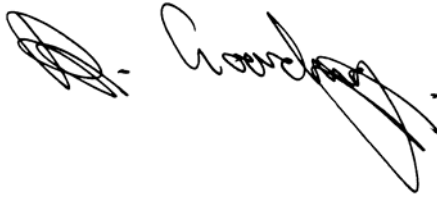
Energy Cost Increase Impacts upon Local Government

Annual electricity network expenditures by each local council in Western Sydney amount to hundreds of thousands of dollars, with some councils expending up to \$3 million or more.

As indicated above it is apparent that councils are still calculating the cost increases likely to be incurred if the proposals by Energy Australia and Integral Energy are approved. However cost increases of the order of 22% to 45% by 2014 would put a severe burden on councils who, in NSW cannot pass on these costs in increased rates and charges because of rate capping and who therefore must reduce expenditures in other areas. More detail on this point will be provided in the full submission.

The future for electricity supply in Australia should emphasise reduced energy usage achieved through low-energy technologies and service efficiencies that are encouraged by an appropriate, transparent and consistent pricing structure that provides affordable energy for low volume users and appropriately higher per unit costs for high users within each supply sector. Overall, progress to this future would not appear to be well reflected in the current proposals of Energy Australia and Integral Energy.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Gooding', is written over a thin red horizontal line.

Alex Gooding
Executive Director

c.c. Mr Kurt Stevens – Analyst – Network Regulation North
nswact@accc.gov.au

E:\!!!Program\32000_Environment and Resources\32045_ENERGY\Energy Inquiries\AER reveiw of NSW DNSP Regulation.doc