

|          |  |                              |                       |
|----------|--|------------------------------|-----------------------|
| Contents | 1 ACCC and NCC regional guide for natural gas transmission pipelines | 3 Electricity                | 10 South Australia    |
|          | 1 Overview of the regional guideline                                 | 6 Gas                        | 12 New South Wales    |
|          | 3 National developments  | 6 Transport Prices Oversight | 14 ACT                |
|          | 3 Telecommunications   | 7 NCC                        | 15 Tasmania           |
|          |  | 8 State developments         | 16 Queensland         |
|          |  | 8 Victoria                   | 17 Northern Territory |
|          |  | 9 Western Australia          | 20 Contacts           |



# network

network national developments telecommunications gas electricity airports rail transport p  
 cc state developments victoria western australia south australia act new south wales tasmania queensland northern territory contacts ncc  
 as electricity airports rail transport prices ncc state developments victoria western a ISSUE 12, JANUARY 2003 ISSN 1445-6044 telecommuni

## ACCC and NCC regional guide for natural gas transmission pipelines

By Nicole Moffatt

In the past 12 months the ACCC has been approached by a number of regional councils considering the development of natural gas transmission pipeline infrastructure projects to their communities. In response to the interest in this area the ACCC and National Competition Council (NCC) have produced a joint publication, the *Regional development of natural gas transmission pipelines* (regional guide).

Both regulatory agencies recognise that the issues facing a pipeline project to rural communities may be substantially different to that of an urban development given the comparatively greater distances and reduced population densities. Sometimes the commercial viability of such proposals will be marginal at best, regardless of whether the pipeline is regulated or not. This decision, however, ultimately depends on the commercial judgment of the parties involved in a project.

However, where a project may be considered marginal only in the near term, the regulatory framework provides some flexibility to facilitate an otherwise viable proposition. Accordingly the responsibility rests with prospective pipeline developers to tailor the optimal pipeline configuration and, if regulated, access regime that best meets the specific requirements of a particular proposal.

Regulation is not automatic in the case of gas pipeline infrastructure and indeed some pipelines are not regulated at all. Since the commencement of the code in 1997, 16 of the then 47 regulated pipelines are now no longer regulated. To determine whether a prospective pipeline falls within the regulatory framework a number of tests must be satisfied. However, a new pipeline may be volunteered to be regulated

as its proponent may consider that regulation provides an increased level of certainty regarding a range of investment critical factors.

### Overview of the regional guideline

The regional guide consolidates into one document a summary of the various regulatory agencies, their role/s and the likely decision steps involved in assessing options for securing natural gas transmission pipeline supplies. In doing so it:

- sets out the options—both regulated and unregulated—for progressing natural gas pipelines
- clarifies the circumstances under which a natural gas transmission pipeline is likely to be regulated
- identifies the regulatory alternatives for developing new natural gas transmission pipelines
- addresses a number of commonly asked questions and issues faced by regional areas interested in extending natural gas supplies.

As each proposal will require specific consideration to take account of its unique characteristics the regional guide is not intended to be definitive. Given this, the ACCC and the NCC encourage early consultation with the agencies by project proponents.





## When are pipelines regulated?

It is widely accepted that vigorous and effective competition normally provides the best means of promoting economic efficiency. In some markets competition may not be possible, as has been the case in some segments of the gas industry. Transmission and distribution pipelines, for example, often face limited direct competition due to significant economies of scale and high barriers to entry and as such exhibit natural monopoly characteristics. In recognition of this fact, regulation should ensure that access to such facilities is based on reasonable terms and conditions.

To help determine the cases where regulation is necessary to ensure the effective functioning and development of natural gas markets, the NCC is responsible for applying the criteria for coverage and making recommendations to the relevant minister under the code and Part IIIA of the Trade Practices Act.

When coverage is determined to be appropriate, it is the ACCC's role to assess the implications of the regulatory decisions on investment in both the regulated sector and downstream markets. In considering these implications the ACCC is mindful that too highly regulated tariffs may stimulate investment in regulated services but at a cost to downstream investment—and the reverse may apply if regulated tariffs are set too low.

## What are the options?

Essentially, there are three possibilities when considering a greenfields transmission pipeline project:

- the pipeline becomes 'covered' through a competitive tender or the voluntary submission of an access arrangement under the code
- an access undertaking for the pipeline is submitted by the service provider under Part IIIA of the Trade Practices Act
- the pipeline is unregulated, i.e. development outside the regulatory framework. The pipeline operator, on the basis of its own commercial assessment, does not seek coverage of the proposed pipeline under the code or submit an access undertaking under Part IIIA.

Some service providers may perceive benefits in securing certainty about the application of the regulatory framework to their particular assets at

the outset. The ACCC released its *Draft greenfields guideline* in June 2002 to assist prospective transmission service providers to understand the regulatory options applying to new gas transmission pipelines in greater detail.

## Regulatory alternatives for new natural gas transmission pipelines

When it is likely that a project will be progressed as a regulated pipeline there are two regulatory alternatives for pursuing a greenfields development project. These are outlined below.

### *A competitive tender under the code*

The code allows for the use of a competitive tender process to determine certain elements of a new pipeline's access arrangement. If carried out according to the tender guidelines in the code, it is anticipated that the competitive pressure between bidders for the development rights of the proposed pipeline will produce tariffs that achieve the objectives of the code.

However, the tender process required by the code may not be appropriate in all circumstances. For example, it may be the case in some situations that the cost of tendering may outweigh any apparent benefit from testing the market. The ACCC envisages that the code tendering provisions would only be appropriate in cases of pipelines to new towns or areas where forecast demand for gas is of such a scale that competitive bids will be received and the cost of the tender process will be outweighed by the benefits.

### *Access arrangement or access undertaking*

Based on their commercial assessment a council or pipeline proponent may wish to develop a greenfields project outside the competitive tendering provisions of the regulatory framework, but then:

- seek coverage of the new transmission pipeline under the code by voluntarily extending or submitting an access arrangement under the code
- submit an access undertaking under Part IIIA of the Trade Practices Act.

The optimal choice between a competitive tender or the sole source option depends on a number of factors. These include, but are not limited to, the

level of interest among prospective pipeline developers and assessed benefits of using that competitive tension to determine the optimal pipeline configuration and terms and conditions on which the transmission services will be provided.

## Regulated pipelines

There are three ways a pipeline may become covered (or regulated), and once in place will be subject to the principles set out in the code.

- A pipeline is automatically covered if it is subject to a competitive tendering process that has been approved by the regulator.
- A service provider or prospective service provider may volunteer that a pipeline be subject to the provisions of the code by proposing an access arrangement to the regulator for approval.
- Any person may make an application to the NCC requesting that a pipeline be covered. The NCC subsequently provides a recommendation to the relevant minister, who makes a decision on the matter.

In reference to the last point it should be noted that the coverage of a pipeline is limited to circumstances where:

- development of competitive pipelines would be contrary to the interests of the community as a whole because the gas pipeline has natural monopoly characteristics
- access is necessary to promote competition in an upstream or downstream market, e.g. the market for natural gas production and/or natural gas sales
- access is economically feasible and not allowed to compromise the system integrity of the pipeline
- access is not contrary to the public interest—that is the benefits of coverage should outweigh the costs.

The Riverland and Mildura pipelines and the Palm Valley to Alice Springs pipeline are examples of regulated regional pipelines that did not meet all these criteria and subsequently had coverage revoked. While each application for coverage is assessed on its merits, it is reasonable to assume that when pipelines possess similar characteristics the consistent application of the coverage criteria would result in the same outcome for each pipeline.

## Conclusion

Natural gas is an important input to many Australian businesses and its potential economic and social benefits have prompted a number of local government authorities in regional Australia to encourage the development of natural gas

transmission and distribution pipelines to their region. With the ability for such projects to be developed in a number of ways consideration of any potential regulatory implications should be given early in the strategic planning process.

However, the regulation of a pipeline should not be a forgone conclusion. It is on the basis of the

proponent's commercial judgment whether to elect to build an unregulated or regulated pipeline. However, proponents of such projects are encouraged to consult with the NCC and the ACCC when considering the optimal regulatory approach.

The regional guide is available on the ACCC's website at <http://www.accc.gov.au/gas>.

# national developments

## Telecommunications

### Guide to telecommunications dispute resolution processes

The ACCC released its guide to the resolution of telecommunications access disputes on 10 October 2002. The guide incorporates incremental changes to the ACCC's processes and consolidates lessons learned since the start of the telecommunications regime and legislative changes since 1997. It also includes the key findings of an independent review by Phillips Fox and Resolve Advisors about the ACCC's processes of handling access disputes.

At the same time that it released the guide, the ACCC called for comments on a proposed 'standard form' confidentiality undertaking for use in arbitration processes. Following consideration of submissions, the ACCC will release the standard form confidentiality undertaking as an addendum to the guide.

### Final report on pricing principles for mobile services

On 1 October the ACCC issued its final report on the pricing principles to be used in arbitrations of disputes over terms and conditions of access to global system for mobile communications (GSM) and code division multiple access (CDMA) services (the two principal mobile technologies used in Australia). The previous pricing principles only covered GSM. The ACCC believes this extension

provides consistency and regulatory certainty to the industry and will promote competitive outcomes in the mobile sector. These pricing principles, along with the mobile services market generally, will be reviewed by the ACCC in 2003.

### Final decision to regulate line sharing services

On 30 September the ACCC announced its final decision to declare telecommunications line sharing services (also known as spectrum sharing), enabling them to be regulated. The ACCC indicated that it was concerned about the viability of sustained competition in broadband telecommunications markets if the service was not declared, but emphasised that declaration would not necessarily lead to intervention by the ACCC in determining terms and conditions for the service.

### Keeping the industry informed on access prices

The ACCC issued a discussion paper on 18 September 2002 looking at how it can provide guidance to market participants on the prices for access to certain wholesale telecommunications services. It also seeks public comment on how indicative prices for the public switched telephone network (PSTN), unconditioned local loop service (ULLS), and local carriage service (LCS) should be determined. The ACCC is planning to develop indicative prices in the first half of 2003 and if the Commonwealth Telecommunications Competition

Bill 2002 is passed, it will have a legal responsibility to do so.

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## Electricity

### Murraylink access undertaking—draft decision

On 6 February 2002 the ACCC received an access undertaking from Murraylink Transmission Company Pty Ltd (MTC), in accordance with Part IIIA of the Trade Practices Act (TPA).

MTC is a market network service provider (MNSP) proposing to provide access to the Murraylink interconnector, which will be an unregulated link connecting the Victorian and South Australian electricity grids.

The ACCC has considered the access undertaking against the statutory criteria set out in s. 44ZZA(3) of the TPA. These criteria require the ACCC, in assessing the access undertaking, to consider:

- the legitimate business interests of the provider
- the public interest, including the public interest in having competition in markets (whether or not in Australia)
- the interests of persons who might want access to the service
- whether access to the service is already the subject of an access regime



- whether the undertaking is in accordance with an access code that applies to the service
- any other matters that the ACCC thinks are relevant.

The ACCC received submissions from TransGrid and the New South Wales (NSW) Treasury. The ACCC also received a response to these submissions and a presentation from the applicant. The ACCC considered these submissions in its assessment of MTC's access undertaking, and released a draft decision on 31 July 2002.

The draft decision determined that the access undertaking should not be accepted, considering the criteria set out in s. 44ZZA(3) of the TPA. However, the ACCC also determined that if the access undertaking were revised to provide them with the confidential disclosure of the identity of parties to any agreement concerning the sale of Murraylink's physical transmission rights, the undertaking should then be accepted.

The ACCC is currently reviewing submissions received in response to the draft decision and anticipates that a final decision will be released in November 2002.

### **Basslink access undertaking—final decision**

On 25 May 2001 the ACCC received an access undertaking from Basslink Pty Ltd (Basslink) submitted in accordance with Part IIIA of the TPA.

Basslink is an MSNP that proposes to build and provide access to the unregulated transmission cables that will connect the Tasmanian and Victorian electricity regions.

At the time the undertaking was submitted, the ACCC was also assessing the Tasmanian Government's authorisation application for a vesting contract and National Electricity Code (code) changes to facilitate Tasmania entering the National Electricity Market (NEM) and becoming a member jurisdiction. The ACCC thought it was prudent to resolve issues in the Tasmanian authorisation process first so that the framework in which Basslink would operate would be set before its undertaking was assessed. Accordingly, it was decided that the ACCC delay the assessment of Basslink's undertaking until after a final determination on Tasmania's NEM entry had been made.

Basslink undertakes to make its networks available to code participants and at prices determined in accordance with clause 3.9 of the code. While the code includes a specific undertaking for MNSPs

(schedule 5.9), this is a recent amendment and is not part of the approved industry access code (NEM access code) that has been accepted by the ACCC under Part IIIA of the TPA.

Consequently, in assessing Basslink's undertaking, the ACCC has considered the criteria of s. 44ZZA. In making its decision the ACCC specifically considered the criteria set out in s. 44ZZA(3). These criteria are the same as listed under the Murraylink access undertaking.

The ACCC also considered the extensive public consultation process for Tasmania's entry into the NEM, where the operation of Basslink was discussed at length. Given that the ACCC has considered and authorised code changes for the operation of MNSPs, many of the issues raised in the context of Basslink have also been canvassed more broadly in that process.

Only one submission from Loy Yang Power was received in response to the draft undertaking published by the ACCC under s. 44ZZA(4). In light of the extensive nature of the consultations about the role of MNSPs and Basslink in particular, and the response to the proposed undertaking for Basslink, the ACCC issued its acceptance of the Basslink access undertaking as a final decision on 11 September 2002.

### **South Australian transmission network revenue cap 2003–07/08 (draft decision)**

As part of its responsibilities under the code, the ACCC is currently conducting an inquiry into the appropriate revenue cap to apply to the South Australian electricity transmission network, owned and operated by ElectraNet SA. The revenue cap will apply for a five and a half-year period starting 1 January 2003.

ElectraNet SA operates over 5576 circuit kilometres of transmission lines and 68 substations throughout South Australia. On 11 September 2002 the ACCC released its draft decision which details the maximum allowable revenue that ElectraNet SA can earn from the use of its non-contestable transmission assets.

In its draft decision the ACCC determined a revenue cap for ElectraNet SA incorporating an annual adjustment based on the weighted average of eight capital cities' CPI using a smoothing factor of –1.62 per cent. The revenue cap will increase from \$143.72 million in 2002–03 to \$174.19 million in 2007–08.

In setting ElectraNet SA's revenue requirement, the ACCC assessed ElectraNet SA's capacity to achieve realistic efficiency gains in its proposed operating and maintenance expenditure regarding future demand and service quality. The ACCC granted ElectraNet SA a figure of \$46.47 million of opex for the period 2002–03 increasing to \$57.36 in 2007–08.

The ACCC was also required to assess ElectraNet SA's proposed capital expenditure with regard to future demand and service quality. The ACCC has included a total capex roll-in for the period 1 January 2003 to 30 June 2008 of \$347 million. In making its decision, the ACCC noted that ElectraNet SA is required to apply the regulatory test to justify the inclusion of the projects in its future asset base.

The ACCC's draft decision draws on ElectraNet SA's application, consultancy reports on the asset base, capital and operating expenditure, submissions from interested parties, and other information presented to the ACCC during the course of its deliberations. The ACCC anticipates releasing its final decision in mid-December 2002.

### **Victorian transmission network revenue cap 2003–08 (draft decision)**

As part of its responsibilities under the code, the ACCC has started an inquiry into the appropriate revenue cap to apply to the Victorian electricity transmission network for a five and a half-year period starting 1 January 2003. The Victorian network is planned by VENCORP and owned and operated by SPI PowerNet.

On 24 September 2002 the ACCC released its draft decision, drawing on VENCORP's and SPI PowerNet's application, consultancy reports, submissions from interested parties and other information presented to them during the course of deliberations. The draft decision sets a revenue cap for SPI PowerNet that increases from \$264.55 million in 2004 to \$297.81 million in 2008.

The draft revenue cap is based on a post-tax nominal return on equity of 11.28 per cent and an opening asset balance of \$1 815.56 million.

The ACCC has included a total capex roll-in for the period 1 January 2003 to 30 June 2008 of \$360.22 million to cater for demand growth and the ageing network. This will ensure a reliable supply of electricity to Victorian consumers, while providing long-term investment incentives for SPI PowerNet. In making its decision, the ACCC noted



that SPI PowerNet is required to apply the regulatory test to justify the inclusion of the projects in its future asset base.

The ACCC will consider submissions from industry and consumer bodies before issuing its final decision.

## Authorisation of amendments to the National Electricity Code

### Changes to bidding and rebidding rules

On 13 September 2001 the ACCC received applications for authorisation (A90797–9) of amendments to the code about bidding and rebidding rules.

The National Electricity code Administrator (NECA) has applied for authorisation of code changes which in their view, will:

- improve the reliability of pre-dispatch forecast prices in each dispatch interval, which would assist generator operators to plan the operation of their plant
- address aspects of generator's bidding and rebidding strategies that are of concern, and that are claimed to have been the cause of short-term price spikes experienced in the NEM.

The ACCC received 22 submissions about the proposed changes.

After considering issues raised in submissions the ACCC issued its draft determination on 3 July 2002. In it, the ACCC accepted NECA's proposal that bids and rebids be made in 'good faith', but did not accept NECA's proposals of 'reverse onus of proof' and 'conduct prejudicial'.

The ACCC received a request for a pre-determination conference from the Hon. Patrick Conlon, Energy Minister for South Australia. The pre-determination conference was held in Melbourne on 13 August 2002, and further submissions arising from the draft determination closed on 20 September 2002. Twenty-four further submissions were received.

The ACCC is expected to release its final determination in November 2002.

### Review of directions in the NEM

On 18 February 2002 the ACCC received applications for authorisation (A90818–20) of amendments to the code about directions in the NEM.

The proposed code changes were designed to implement the conclusions and recommendations of a joint NECA/NEMMCO review of directions in the NEM. The main recommendations of the report were:

- directions should be employed only as a last resort
- a single and consistent arrangement should apply to the use of the power of direction
- provisions to improve transparency in the application of directions and to report on their uses ought to be strengthened
- when NEMMCO exercises its power of direction, it should direct the most appropriate physical resource to correct the identified deficiency
- in the event of a direction, market prices should so far as practicable be set on a 'what-if' basis
- directed parties should receive fair payment reflecting prevailing market conditions— payment should, however, not be set automatically to the prevailing spot price
- third parties affected by directions should also be compensated
- payments to directed parties and compensation to third parties should be funded from the sector of the market that would normally meet the costs of the service concerned.

The ACCC received four submissions regarding the proposed code changes.

After considering the issues raised in submissions, the ACCC issued its draft determination on 4 September 2002. The ACCC did not receive a request for a pre-determination conference and no further issues were raised. Therefore the ACCC released the final determination on 3 October 2002.

In its final determination the ACCC granted conditional authorisation to the proposed code changes. It considered that the code changes have the potential to improve overall operation of the existing arrangements for directions in the NEM. Nevertheless, the ACCC considered there were numerous minor drafting and editorial changes that must be made so that the code provisions are consistent. It therefore imposed several conditions to amend and clarify the interpretation of the code changes to help ensure the anticipated public benefits can be realised.

## Stage 1 of integrating the energy market and network services

On 27 March 2002 the ACCC received applications for authorisation (A90826–28) for amendments to the code arising from NECA's stage 1 review of integrating the energy market and network services. The proposed code changes related to:

- the extension of authorisation of settlement residue auction (SRA) arrangements
- changes to the calculation of loss factors, including a move towards a forward-looking approach in their calculation
- moving towards firmer access across transmission networks.

The ACCC received six submissions about the proposed code changes.

After considering issues raised in submissions the ACCC issued its draft determination on 4 September 2002. The ACCC did not receive a request for a pre-determination conference and therefore released the final determination on 3 October 2002. A summary of the ACCC's determination on the code changes is outlined below.

The ACCC believed that the SRA arrangements had facilitated inter-regional trade in the NEM, providing public benefits through increased competition. They also believed that the SRA arrangements would continue to deliver these benefits in the future and therefore agreed to authorise the changes until 31 December 2010.

In the ACCC's view the move towards forward-looking loss factors would improve the representation of transmission losses in the NEM, creating public benefits by increasing the efficiency of wholesale market operations. They therefore authorised the code changes subject to minor conditions of authorisation.

In the ACCC's view the firmer access code changes to provide market participants with better information to manage the risks associated with network use would deliver public benefits to the market. The ACCC therefore authorised these provisions of the code changes. However, the ACCC did not consider the provision of giving NECA the responsibility for developing a network performance framework was appropriate given the ACCC's role as regulator of transmission networks revenues and service standards. The ACCC noted that it is developing network performance measures for transmission networks. The ACCC therefore considered there



were insufficient public benefits associated with the proposal and required the relevant clause to be deleted from the code changes.

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## Gas

### 2002 review: Victorian transmission access arrangements

In November 2002 the ACCC released its final decisions on the first scheduled review of the GasNet Australia (Operations) Pty Ltd (GasNet) and the Victorian Energy Networks Corporation (VENCorp) gas transmission access arrangements.

This followed consideration of submissions provided several interested parties on draft decisions released in August 2002. Under the provisions of the code, both service providers were able to submit amended revisions in response to the draft decisions.

VENCorp elected to provide amended revisions. The ACCC has assessed these and determined that they comply with the proposed amendments. Accordingly, its final decision was to approve the amended revisions. The revised VENCorp access arrangement and tariffs will start on 1 January 2003.

In contrast, GasNet provided an additional submission to the ACCC in response to its draft decision. After considering these and other submissions, the ACCC concluded that several aspects of the proposed revisions are inconsistent with the principles and objectives of the code. For this reason it decided to confirm its draft decision and not approve GasNet's proposed revisions. Accordingly, it specified several amendments which would need to be made for the revisions to be approved.

The ACCC nonetheless accepted a range of major changes to GasNet's access arrangements. These include the merging of two access arrangements (for the principal transmission system and the western transmission system); having the southwest pipeline and the Murray Valley pipeline in the capital base; and introducing pass-through mechanisms and prudent discounts.

- 6 GasNet is expected to lodge amended revisions in December which the ACCC will assess for compliance. The revised GasNet access arrangement and tariffs are scheduled to start on 1 January 2003.

### Re-authorisation of the market and system operations rules (draft determination)

On 16 October 2002 the ACCC released its draft determination on VENCorp's application for re-authorisation of the market and system operations rules (the MSOR). The draft determination proposed to grant authorisation to the MSOR for a period of ten years, starting 1 January 2003. The MSOR are a set of rules governing, among others, the operation of Victoria's gas transmission system and the operation of a wholesale spot market that allows participants to trade gas imbalances.

In its draft determination the ACCC viewed the MSOR as likely to result in a net benefit to the public. This public benefit emanates principally from the transparency and efficiency of the spot market, the facilitation of retail competition and the stability of maintaining current arrangements. The ACCC considered that this public benefit would be likely to outweigh any potential detriment resulting from the MSOR.

A pre-determination conference was called in relation to the ACCC's draft determination. This was held on 21 November 2002 at the ACCC's offices in Melbourne. Following the pre-determination conference the ACCC is giving further consideration to the views of interested parties before releasing its determination.

### Greenfields guideline consultative forum

On 19 November 2002 the ACCC held a consultative forum on the 'Draft greenfields guideline for natural gas transmission pipelines'. The forum was designed to allow further consultation with industry and other interested parties before the ACCC finalises the greenfields guideline.

The forum was attended by industry participants, consultants, industry bodies, financiers and analysts across all sectors of the natural gas industry and other interested parties involved in the development of natural gas transmission pipeline infrastructure. In addition to presentations by a panel comprising Commissioner John Martin, ACCC staff members and consultants, interested parties also had the opportunity to address questions to the panel regarding the greenfields guideline.

The views presented at the forum will be used in finalising the greenfields guideline, which will be released in 2003. Interested parties wishing to make

written comments about the draft greenfields guideline are invited to do so by 7 February 2003.

Submissions should be addressed to Mr Russell Phillips, Acting General Manager, Regulatory Affairs Division—Gas Group, PO Box 1199, DICKSON ACT 2602 or email: <gas@accc.gov.au>.

Copies of the draft greenfields guideline and related consultancies can be found on the ACCC's website at <http://www.accc.gov.au> (under Gas, Broader Regulatory Issues).

## Transport and Prices Oversight

### Aviation and post

#### Final decision on Australia Post's proposed price increases

In April 2002 Australia Post lodged a draft price notification to increase the cost of various postal services including a price increase for the basic postage stamp from 45 cents to 50 cents. It argued the increases were necessary because of falling volume growth, reduced opportunities for productivity gains, the need to fund its community service obligation and the need to ensure a commercially viable rate of return.

The ACCC issued a preliminary view in September 2002 in which it opposed Australia Post's initial proposal to increase the prices for large letters and bulk PreSort mail. The preliminary view also paved the way for the first rise in the price of the basic postage stamp since 1992.

In the preliminary view the ACCC balanced the interests of mail users and the sustainability of the basic postal service provided by Australia Post, including obligations in rural and remote areas. The ACCC considered that this approach would allow Australia Post to achieve a reasonable rate of return in the provision of postal services over the five-year period to 2006–07.

The initial opposition by the ACCC to Australia Post's proposed increases to bulk pre-sort and large letter rates was due to concerns regarding the level of revenue generated by the overall package and the pricing structure proposed. The ACCC's analysis indicates that this mail is already making significant profits for Australia Post and has been cross-subsidising full rate mail users.



Australia Post subsequently lodged a revised submission on 7 October 2002. This document recognised the ACCC's concerns and proposed prices consistent with the general position expressed in the ACCC's preliminary view.

On 25 October 2002 the ACCC announced its final decision not to object to Australia Post's request to increase the price of the basic postage stamp and not to object to the revised price structure for bulk PreSort mail.

The increase will take effect from January 2003.

The final decision should be read in conjunction with the preliminary view, which forms an appendix to the document. It is available on the ACCC website at <http://www.accc.gov.au/post/post.html>.

### Government announces new postal role for ACCC

On 14 November 2002 the government announced its intention to introduce a set of reforms to Australia Post. Among other changes, it will expand the ACCC's power to inquire into disputes about the terms and conditions for bulk mail interconnection arrangements. In response to concerns that Australia Post is unfairly competing by cross-subsidising its competitive services with revenues from its reserved services, the changes will also require increased transparency in Australia Post's accounting. It is understood these regulatory accounting requirements will be administered by the ACCC.

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## National Competition Council (NCC)

### Virgin application: declaration of certain services at Sydney airport

On 1 October 2002 the NCC received an application under Part IIIA of the TPA from Virgin Blue Airlines Pty Ltd for a recommendation to declare the following services:

- (1) a service for the use of runways, taxiways, parking aprons and other associated facilities necessary to allow aircraft domestic passengers to:
  - (i) take off and land using the runways at Sydney airport

- (ii) move between the runways and the passenger terminals at Sydney airport
- (2) a service for the use of domestic passenger terminals and related facilities to process arriving and departing domestic airline passengers and their baggage at Sydney airport.

Following receipt of a declaration application the NCC must consider the application against the criteria in s. 44G of the TPA. The NCC then makes a recommendation to the decision-maker on whether the criteria are met and whether the service should be declared. The decision-maker is Senator the Hon. Ian Campbell, Parliamentary Secretary to the Treasurer.

Virgin Blue has requested that the NCC defer consideration of the application on domestic terminal services as it expects to withdraw the application once it executes an agreement reached with SACL on access to domestic terminal services.

The NCC will provide an issues paper and information about the process for considering this application in the near future. A copy of the application is available from the NCC's website at <http://www.ncc.gov.au>.

### Queensland Government's application: certification of access regime for natural gas pipelines

The NCC has finalised its recommendation to the Senator the Hon. Ian Campbell, Parliamentary Secretary to the Treasurer, about this application. This followed a period of public consultation on the NCC's draft recommendation. The NCC's recommendations will be published once the minister has made his decision.

### South Australian Government's application: certification of access regime for port services

The South Australian Government has withdrawn its application for certification.

### EAPL's application for revocation from coverage of the MSP mainline and Canberra lateral under the national gas code

The NCC has finalised its recommendations to the Hon. Ian Macfarlane MP, Minister for Industry, Tourism and Resources about these applications. The recommendation is available from the NCC's website.

### Envestra Limited's application for revocation from coverage of the Mildura distribution system (Victoria) under the national gas code

On 23 September 2002 the NCC received an application from Envestra Limited to revoke coverage of the Mildura distribution system under the *Gas Pipelines Access (Victoria) Act 1998*. The Act incorporates the National Third Party Access Code for Natural Gas Pipeline Systems (the code).

The Mildura distribution system serves customers in the area of the city of Mildura and the nearby townships of Merbein, Red Cliffs and Irymple. The distribution system supplies gas to a total of 890 customers through approximately 100 km of pipe. Gas for the system originates in the Cooper Basin and is transported through the Moomba to Adelaide pipeline and then the Riverland and Mildura transmission pipelines. The system delivers an annual volume of gas of about 254 terajoules. Origin Energy is responsible for retailing the gas. It is currently subject to an access arrangement that was put in place in July 1999 by the regulator, the Essential Services Commission. The access arrangement expires on 30 June 2003. It is a covered pipeline following a tender outcome that resulted in it being covered under the provisions of s. 1.21 of the code.

Under the code, the NCC is responsible for making a recommendation to the responsible minister who must decide whether or not to revoke coverage of the pipeline. The responsible minister is the Hon. Candy Broad MLC, Minister for Energy and Resources and Ports.

The NCC must consider whether the pipeline meets the coverage criteria in s. 1.9 of the code. The NCC has prepared a draft recommendation and is seeking submissions by 25 November 2002. The draft recommendation and Envestra's application for revocation are available from the NCC's website.

### APT's application for review

On 18 October 2002 Australasia Pacific Transport Pty Limited (APT) applied to the Australian Competition Tribunal for a review of the minister's decision to declare the service provided by the Wirrida to Tarcoola rail track.

The matter has been listed for a directions hearing from 10 March 2003.

# state developments

state developments victoria western australia south australia act north australia south wales tasmania queensland northern territory contacts ncc gas electricity airports rail transport prices ncc state develop

## Victoria

### Essential Services Commission (ESC)

#### Electricity

##### *Distribution performance monitoring and reporting*

The 'distribution information specification' has been aligned in accordance with the national reporting requirements and the new specification will apply from 1 January 2003. The 2001 calendar report was published in August and the January to June 2002 report is currently being drafted.

##### *Distribution loss factors (DLF)*

The ESC has initiated a review of the DLF calculation method to:

- review the method used to calculate site-specific DLFs, including an appropriate volume weighting factor
- determine how theft should be treated
- establish sufficiently reliable data on loss levels to set benchmarks
- examine the accuracy with which losses are measured and the appropriate allocation of losses between customers of local and 2nd tier retailers.

The review involves other jurisdictions through the Utility Regulators Forum and a status report will be provided to the November meeting.

##### *Distribution audits*

The ESC will be conducting audits in early 2003 to determine the level of distributors' compliance with regulatory obligations. This project forms a key part of the ongoing reporting, monitoring and compliance program. The conduct of audits is a licence condition, which arises from the ESC's objectives to:

- facilitate efficiency in regulated industries and the incentive for efficient long-term investment

- ensure that the misuse of monopoly or non-transitory market power is prevented.

The ESC is currently consulting with the distributors on the audit scope.

##### *FRC effectiveness review*

In October 2001 the Minister for Energy and Resources referred to the ESC a reference to investigate and report on whether retail competition in the market for the sale of electricity to domestic and small business customers is, or is likely to be, effective. The ESC was required to submit a draft report to both the minister and the retailers for comment by no later than 31 August 2002 and a final report to the minister by no later than 30 September 2002.

The ESC concluded that to date:

- competition has been effective in some parts of the market where sufficient margins are available
- competition is likely to become more effective over time as experience increases, but may be limited where regulated prices continue to restrict the margins available when competing for some customers.

##### *Review of electricity and gas customer protection framework for full retail competition (FRC)*

The ESC is starting a review of electricity and gas customer protection regulatory instruments to ensure appropriateness for multi-fuel contracts to customers, and to recognise the development towards an integrated energy industry. Consultation will occur with all relevant parties, including customer groups.

##### *FRC market monitoring*

The ESC will examine options for a system for monitoring price, service and efficiency of transfers in the retail market, including:

- market share
- market prices

- efficiency of customer transfers
- customer perceptions.

Consultation will occur with relevant consumer organisations and market research firms in developing options.

##### *Interval meter roll-out for Victorian electricity customers*

In November the ESC will release its position paper on the general introduction of interval meters for all customers in the electricity market. The position paper will call for comments on the cost, benefit analysis and the regulatory and implementation issues raised.

##### *Retailer of last resort (ROLR)*

The ESC has finalised its consultation on the pricing principles for ROLR service. The next step in the process is for the ESC to outline its draft decision on who provides the ROLR service in the case of local retailer failure and a form of the price when customers are supplied by the ROLR. The ESC is also finalising ROLR operating procedures.

##### *Ring fencing*

Following the introduction of FRC in electricity, the ESC will take the next step in considering the need for further ring fencing of the electricity distributors to ensure a competitive market place. The ESC will commence by reviewing its 2001 pre-FRC position paper.

##### *Public lighting review*

The ESC will undertake a review of excluded service charges for the operation, maintenance and repair of public lighting to assess whether the charges are fair and reasonable. The review will start in mid-November and comprise a review of distributors' costs for the provision of public lighting operation, maintenance and repair services. Consultation will occur with relevant parties including all public lighting customers. The review is expected to be completed early in 2003.





### Regulatory accounting information requirements

The ESC will begin a review of its regulatory accounting guideline in early 2003 to ensure that regulatory accounting information provided by the distributors is accurate, fully consistent with national regulatory reporting requirements and aligned with the electricity distribution price determination reporting templates.

### Gas

#### Review of gas distribution access arrangements 2004–07

On 2 April 2002 Envestra, Multinet and TXU each submitted proposed revisions to their existing Victorian gas distribution access arrangements to the ESC for approval. Envestra also submitted proposed revisions on 8 April 2002 related to its Albury gas distribution network that has been cross-vested from New South Wales to Victoria.

Each of the distributors' proposed revisions set out the terms and condition of access to the services of their gas distribution pipeline networks for the five-year period starting 1 January 2003.

On 4 July 2002 the ESC released a draft decision proposing not to approve the distributors' proposed revisions and setting out a number of requirement amendments, including the requirement for average prices to be reduced in real terms in 2003 by between 1.4 per cent (for TXU) to up to 10.9 per cent (for Envestra (Victoria)) and a further 1 per cent each year between 2004–07.

Following further consultation, the ESC released a final decision on 3 October 2002 that, among other things, required the following real reductions in average prices charged by the distributors during the period.

|                     | 2003 | 2004–07               |
|---------------------|------|-----------------------|
| Envestra (Albury)   | 2.6% | 1.0%                  |
| Envestra (Victoria) | 9.9% | 1.0%                  |
| Multinet            | 2.0% | - 0.7% <sup>(1)</sup> |
| TXU                 | 2.0% | - 0.5% <sup>(1)</sup> |

<sup>(1)</sup> a negative percentage signifies an increase in weighted average prices.

These price reductions do not include the costs associated with the Victorian distributors implementing full retail competition and licence fees (which are to be recovered through a separate adjustment outside the price controls).

The proposed price reductions vary across the distributors reflecting differences in their price cap

arrangements and market experience during the current regulatory period as well as differences in the extent to which each distributor's current prices vary from the prices required to recover the costs of operating their networks over the next five years. The lower price reductions required of Multinet and TXU reflect a more extensive capital expenditure program for these distributors relative to Envestra. These programs are expected to result in improved network safety and reliability as a result of the replacement of a significant proportion of older low-pressure gas mains.

The 2003 prices for both Multinet and TXU also incorporate the carry-over of revenue that would have been received in 2002 had it not been for certain constraints contained in the existing price controls. Correcting for this factor has a marginal impact in the case of Envestra.

In addition to specifying the price caps to apply in the next regulatory period, the final decision restricts the extent to which average prices in the existing tariff categories can change between years. The ESC has proposed a tariff rebalancing control of CPI + 2% to provide distributors with some pricing flexibility while retaining some protection for consumers from large year-on-year price changes.

The decision also incorporates several initiatives to establish a more certain future investment environment for the distributors including the approval of fixed principles to be applied in future regulatory decisions about the regulatory treatment of stranded assets and the distributors' taxation obligations.

Other key features of the final decision include:

- approval of arrangements proposed by the distributors to provide greater certainty about the regulatory treatment of gas network extensions to regional towns, including measures to ensure distributors are not financially disadvantaged by virtue of such projects being commenced within a five-year regulatory period
- the introduction of a 'guaranteed service level' payments scheme, whereby payments are made to residential customers for late appointments, delays in connections, repeat and/or lengthy interruptions.

Each of the distributors are now required to submit amended revisions that meet the requirements of the final decision, including the required price changes, by 6 November 2002.

Further details about this review and the ESC's final decision are available at <<http://www.esc.vic.gov.au>>.

## Western Australia

### Office of Gas Access Regulation (OfGAR)

#### Proposed access arrangements

In Western Australia two pipeline systems have yet to be issued with final decisions. These are the Dampier to Bunbury natural gas pipeline (DBNGP) and the Goldfields gas pipeline (GGP). A proposed access arrangement is yet to be submitted for the Kalgoorlie to Kambalda pipeline.

Draft decisions for the Goldfields gas pipeline and the Dampier to Bunbury natural gas pipeline were issued on 10 April 2001 and 21 June 2001 respectively. While the WA Independent Gas Pipelines Access Regulator is endeavouring to progress the assessment of these access arrangements, both have been the subject of legal action in the Supreme Court of Western Australia. The decision of the court was handed down on the 23 August 2002 for the DBNGP, but declaratory orders must yet be settled. A brief outline of the court's findings were presented in issue 11 of *Network*.

The Supreme Court of Western Australia has not yet heard the case about the draft decision on the GGP. However, on 6 November 2002, the regulator issued a notice advising that he will amend his draft decision for the GGP taking into consideration, among other things, the decision of the Supreme Court relating to the DBNGP. The regulator proposes to issue the amended draft decision in two parts, the first of which will update his earlier decision in accordance with the provisions of the gas code while the second part will give consideration to matters, if any, raised by the owners of the GGP relating to subclause 21(3) of the state agreement for that pipeline.

The regulator granted an extension for submitting a proposed access arrangement for the Kalgoorlie to Kambalda pipeline until 1 July 2004.

#### Full retail contestability costs

On 24 June 2002 AlintaGas Networks Pty Ltd (AGN) submitted a proposal seeking the regulator's binding approval under s. 8.21 of the gas access code (the code) to estimated costs of



developing systems associated with the introduction of full retail contestability in the Western Australian mid-west and south-west gas distribution systems. The effect of this approval would have the costs of the investment by AGN added to its capital base when its access arrangement is reviewed in March 2004 and reference tariffs for use of these distribution systems would be adjusted accordingly.

Networks also requested that the regulator provides a full retail non-binding acknowledgment that contestability related non-capital costs would be likely to satisfy the requirements of s. 8.37 of the code.

The application by AGN required that public submissions be called for at least 28 days before issuing a draft decision and then at least 14 days before issuing the final decision. The first round of public submissions was called on 4 July 2002 resulting in three submissions. The draft decision is being progressed as quickly as possible.

Information on developments about gas access regulation is available on the Office of Gas Access Regulation website at <<http://www.offgar.wa.gov.au>>.

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## South Australia

### Essential Services Commission of South Australia (ESCOSA)

#### Legislation

##### ***Essential Services Commission Act 2002***

The *Essential Services Commission Act 2002* (other than s. 9) was proclaimed on 12 September 2002. As a result the *Independent Industry Regulator Act 1999* has been repealed. Mr Lewis W Owens is the first Chairperson of the new Commission.

##### ***Electricity (Miscellaneous) Amendment Act 2002***

The *Electricity (Miscellaneous) Amendment Act 2002* was also proclaimed on 12 September 2002. This Act provides for a number of amendments to the *Electricity Act 1996*, including a requirement on AGL South Australia Pty Ltd, the monopoly electricity retailer in South Australia, to publish prices for its standing contract for small customers by 1 October 2002.

### Electricity supply industry—price regulation

#### ***Electricity retail price justification: discussion paper***

In August 2002, following the release of the 'Initial Thoughts' paper in April, the SAIIR (now ESCOSA) released a discussion paper intended to advance consideration of the issues raised in the 'Initial Thoughts' paper. The discussion paper sets out the results of research and discussions undertaken by the SAIIR to establish the key cost components of retail electricity prices for prescribed customers from 1 January 2003, and provides details of actual numbers that could be used.

#### ***Electricity retail price justification: final report***

This final report was released in September 2002 and presented the conclusions of the analysis and investigation conducted as part of the electricity retail price justification process. It provided details of cost component prices that, based on the research undertaken, appear to be justified for the South Australian market for 2003. Several submission were received in response to the final report.

#### ***Inquiry into electricity standing contract prices***

On 30 September 2002, in accordance with Part 7 of the Essential Services Commission Act, the Minister for Energy, the Hon. Patrick Conlon referred to ESCOSA an inquiry to determine whether the AGL SA published standing contract prices were justified.

On Friday 25 October 2002 a draft report was delivered to the Minister for Energy and AGL SA in accordance with the terms of reference. The final report and determination was released on 31 October 2002. ESCOSA determined that there is a small over-recovery by AGL SA relative to the prudent costs identified by ESCOSA.

Retail electricity prices in South Australia will now rise by an average of 23.7 per cent from 1 January 2003. The reduction in proposed charges will trim AGL SA's projected revenue by \$12 million for the full 2003 calendar year. The new charges, to be published under Part 3 of the Essential Services Commission Act, will apply from 1 January 2003 and will remain in force until revoked or revised by ESCOSA.

### ***Distribution price review framework—working conclusions***

As envisaged in the discussion paper previously released, this paper sets out the SAIIR's working conclusions on the issues raised on the price review framework.

This approach should increase regulatory certainty by forming a working conclusion on certain issues at an early stage of the 2005 price review. The benefit is that many issues would have been resolved before the actual price determination is made. This enables the focus of later effort to be more on numerical data rather than issues of principle.

The working conclusions reached by the SAIIR are based on existing information and legal structures. Final decisions (as opposed to working conclusions) would be made closer to the price determination in 2005.

#### ***Full retail contestability***

The SAIIR is responsible for establishing an appropriate consumer protection regime for the start of full retail contestability in SA on 1 January 2003.

#### ***Electricity retail competition: electricity marketing code***

Under s. 28 of the Essential Services Commission Act, ESCOSA has made a new electricity marketing code. The electricity marketing code will come into operation on and from 1 November 2002. The code will govern marketing behaviour and consumers' cooling-off rights in respect of electricity retail contracts.

#### ***Electricity retail code—January 2003***

Under s. 28 of the Essential Services Commission Act, ESCOSA has made a new electricity retail code. The code has been drafted in anticipation of the start of full retail competition in SA on 1 January 2003 and will replace the existing retail code, which will be revoked on that date.

#### ***Electricity retail competition: consumer transfer and consent issues***

The SAIIR and the South Australian Department of Treasury and Finance jointly released a paper entitled 'Electricity retail competition: consumer transfer issues'.

The paper contained the independent draft decisions of the SAIIR and the Department of Treasury and Finance following consultation on an earlier joint discussion paper released in July 2002. That discussion paper dealt with three discrete issues:



- the setting of jurisdictional rules for the National Electricity Market Management Company's market settlement and transfer solution procedures by the South Australian Government
- the setting of a national metering identifier standing data schedule by the jurisdictional regulator
- the development of a consumer transfer and consent code by the South Australian Independent Industry Regulator.

### ***Electricity consumer transfer and consent code***

Under s. 28 of the Essential Services Commission Act, ESCOSA has made a new electricity consumer transfer and consent code to apply to the electricity supply industry in SA.

The code will come into operation on and from 1 November 2002.

### ***Electricity retail competition: review of distribution code, distribution and retail licences—discussion paper***

This discussion paper raised various proposals to amend the current provisions of the distribution code, distribution licences and retail licences in anticipation of the commencement of full retail competition on 1 January 2003.

Comments were received from stakeholders and these have assisted in the development of a series of draft decisions on the nature of those amendments. Further consultation was undertaken on the draft decisions and it is anticipated a final decision and amendments to the distribution code, distribution licences and retail licences will be finalised in November.

### ***Electricity retail competition: review of the electricity metering code***

This discussion paper was prepared by the SAIIR to assist the consultation process associated with proposed amendments to the metering code, to allow for the start of full retail competition in South Australia from 1 January 2003. The metering code has been amended to ensure that it is compatible with, and complements, the metrology requirements which are incorporated in the National Electricity Code and the South Australian metrology procedure. The discussion paper was prepared to explain and discuss the changes to the metering code and seek comments on the revised metering code.

### ***Electricity retail competition: retailer of last resort arrangements—issues paper***

The paper canvasses several issues with respect to appropriate retailer of last resort arrangements to apply to small customers (those consuming <160 MWh of electricity per annum) with the start of full retail contestability in South Australia on 1 January 2003.

It is necessary that such arrangements be established to address the situation in which a licensed retailer is unable to continue selling electricity to its customers. As a condition of its distribution licence, ETSA Utilities is required to act as the retailer of last resort in South Australia, on terms and conditions approved by ESCOSA.

The paper canvasses appropriate terms and conditions to apply in the sale of electricity by ETSA Utilities to small customers affected by a retailer of last resort event. Possible pricing arrangements are also discussed in the paper.

### ***Demand management for distributors—discussion paper***

The Office of the SAIIR released a discussion paper on 'Demand management for distributors' as a basis for consultation with interested parties on the possible framework for meeting the electricity distributors' statutory demand management requirements.

The paper identifies those requirements and provides an overview of some of the options available to meet the requirements.

### ***Developing reselling arrangements in a competitive retail market—discussion paper***

This paper discusses issues that relate to the access and pricing provision of the Electricity (General) Regulations 1997 as they relate to electricity reselling.

It first discusses some of the practical issues associated with providing inset customers with an effective right of access to retailers. This includes a discussion on when operators must provide inset customers with access to retailers and how this access could be provided.

It also discusses the requirement in the regulations for ESCOSA to set a scale of charges for classes of inset customers from 1 January 2003. This includes several options, for discussion, on how this scale of charges could be set.

## **Transmission sector**

### ***Review of the transmission licence held by ElectraNet SA and of the transmission code—discussion paper***

ESCOSA has initiated a review of the transmission licence held by ElectraNet SA, operator of the main electricity transmission network in SA, and the SA transmission code.

A discussion paper outlining issues associated with this review has been released by ESCOSA. The review has been necessitated by the ACCC's revenue cap review for ElectraNet SA, a draft decision which was released by the ACCC on 16 September 2002. It will be necessary to ensure that both the transmission licence held by ElectraNet SA and transmission code complement the outcomes of the ACCC review. The major impact is likely to be in the area of service standards imposed on ElectraNet SA by the transmission code.

## **Fuel poverty report**

In August 2002 a study into the issue of fuel poverty was commissioned by the SAIIR. The work was undertaken by the National Institute of Labour Studies.

The final report released in October examines approaches adopted in the UK, USA and Australia to measure the number of households who spend a disproportionate share of income on energy.

Survey data from 1999 indicates that approximately 9 per cent of South Australian low income households spent 8 per cent or more of disposable income on fuel. Fuel poverty was reasonably evenly spread across all age groups.

The report has been provided to the Commission's Consumer Advisory Committee and to the SA Parliamentary Committee Inquiry into Poverty.

The Commission intends, with the support of the Consumer Advisory Committee, to implement the recommendation to collect the necessary data to monitor the effect of the electricity price increases from 1 January 2003.

## **Rail**

### ***Tarcoola–Darwin railway: regulated rates of return—draft determination***

Third party access to the Tarcoola–Darwin railway is subject to the rail access regime set out in the AustralAsia Railway (Third Party Access) Code which is a schedule to the AustralAsia Railway (Third Party Access) Code 1999 (SA, NT).



This paper provides a draft determination on certain rate-of-return matters that precede the development and finalisation of pricing guidelines required under the code. It does not address all pricing matters arising in the code.

## Ports

### *Ports price review—open letter*

On 2 September the SAIR released an open letter announcing and explaining the upcoming price and access reviews to be undertaken on ports regulation. The letter was distributed widely around the ports industry to provide advance notice of the reviews. Each review will begin with the release of a discussion paper.

### *Ports guideline no. 1—access price information*

ESCOSA has released the 'Price information guideline' under the South Australian Ports Access Regime. The guideline obliges regulated operators (Flinders Ports and AusBulk) to provide certain price information (in the form of a price information kit) as part of the access regime. Both operators are to have their kits available from 1 January 2003.

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## New South Wales

### Independent Pricing and Regulatory Tribunal

IPART reports mentioned below can be downloaded from <<http://www.ipart.nsw.gov.au>>.

### Energy licensing

During 2001 the electricity and gas licensing regimes were extensively revised to support the introduction of full retail competition (FRC). IPART has recently engaged Deloitte Touche Tohmatsu to undertake an FRC licensing compliance audit of those companies actively supplying small retail customers in NSW. The audit is expected to be completed in January 2003.

IPART believes that during 2001–02 licensees were generally complying with their licensing obligations. Where non-compliances occurred, they were mostly of a minor or transitional nature and, in the majority of cases, quickly resolved. The licence compliance audits will further verify and assist in ensuring ongoing compliance.

## Electricity

### *2004 review of distribution network prices*

IPART's current determination on the regulatory arrangements to apply to NSW distribution network service providers (DNSPs) expires on 30 June 2004. IPART commenced its review (conducted under the National Electricity Code) by reviewing the form of regulation that should apply from 1 July 2004. IPART released its decision in June 2002. The new economic regulatory arrangements that will apply include a weighted average price cap for the distribution component of network tariffs, a pass through of transmission charges and a price cap for miscellaneous charges and monopoly fees.

IPART intends to undertake comprehensive public consultation as part of the rest of its 2004 review, see indicative timetable for public consultation below.

### *Undergrounding of electricity distribution cables*

The Minister for Energy requested IPART to provide assistance under s. 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act) in identifying the costs, benefits and funding for undergrounding electricity distribution cables in urban areas of NSW. IPART's final report to the minister in May 2002 found that the

quantified costs are substantially higher than the quantifiable benefits of general widespread undergrounding, and that some benefits such as improved amenity are difficult to quantify. IPART recommended a mixed funding approach based on a beneficiary pays principle in which 60 per cent of costs would be recovered by local rates and levies, 15 per cent by the state, 5 per cent by customers and 20 per cent by the DNSPs. In releasing IPART's final report in September, the minister announced that the government had rejected proposals to underground entire electricity networks due to the high cost. Instead, the government would develop mechanisms for undergrounding where communities are willing to pay.

### *Demand management (DM)*

IPART released the final report for its inquiry into 'The role of demand management and other options in the provision of energy services' in October 2002. A key question raised by the inquiry was whether DM options that can meet customer's energy needs at lower cost, and perhaps with lower environmental impact are currently being by-passed in favour of 'build and generate' solutions and if so, what can be done to encourage the greater use of these options.

The inquiry identified three broad drivers for DM: environmental improvements, such as a reduction in greenhouse gases; increased network efficiency

| Activity   | Time frame      |
|--|-----------------|
| Release issues paper   | November 2002   |
| Release information request and draft model                                  | November 2002   |
| Review total costs   |                 |
| Release consultant's draft report on total costs review                      | May 2003        |
| Receive public submissions on consultant's draft report                      | July 2003       |
| Release consultant's final report  | September 2003  |
| Receive submissions from DNSPs   | 10 April 2003   |
| DNSPs present their submission to interested stakeholders                    | 11 April 2003   |
| Receive general public submissions   | 4 July 2003     |
| Receive 2002–03 regulatory accounts from DNSPs                               | 29 August 2003  |
| Release draft determination  | November 2003   |
| Receive submissions from DNSPs and public in response to draft determination | 20 January 2004 |
| Hold public hearing  | February 2004   |
| Release final determination  | March 2004      |



and lower network costs; and retail market management of price risks and reduction of end-users' energy costs.

Based on the evidence presented to it during the course of the inquiry, IPART believes that there are substantial cost-effective opportunities to use DM in NSW that are not being pursued. In the right circumstances, DM can be cost-effective. However, the costs and benefits of any DM options can vary enormously depending on its specific application.

IPART has recommended several initiatives to overcome the barriers to DM, including:

- establishment of a DM fund to support specific programs aimed at increasing energy efficiency and reducing demand
- strengthening the government's role as a 'model' consumer through improved coordination across government and increased government support for DM programs
- working with the network operators to develop better planning processes to provide greater clarity to the regulatory treatment of non-network investments
- trials of congestion pricing in regions of emerging constraints
- clarifying the treatment of distributed generation and the method for calculating avoided transmission use of service charges, negotiation of standard connection agreements and developing standard offer contracts
- a review by government of the policy for rolling-out interval meters to residential customers and accelerating their availability to provide better price signals and increase the capacity of customers to respond by modifying their consumption.

### Greenhouse gas benchmarks

On 31 October 2002 the NSW Minister for Energy introduced a bill requiring NSW electricity retailers and other liable parties to meet mandatory targets for abating the emission of greenhouse gases from electricity production and use.

The proposed legislation would:

- require retailers and other liabilities to reduce greenhouse gas emissions from 2003 to 2007, with emission levels to then be held constant until 2012

- encourage a range of abatement activities and greenhouse friendly generation
- encourage cost-effective abatement options by providing for trading in greenhouse gas abatement credits.

The Minister for Energy and the Ministry of Energy and Utilities have developed the policy framework and bill, and will continue to develop detailed, policy-related aspects of the scheme. IPART will implement and administer the new scheme, although the bill provides for the minister to approve other persons or agencies to administer aspects of the scheme in the future.

Low emission generators (and a range of other parties) will be eligible to create emission-abatement credits and sell them to liable parties. By buying and 'acquitting' abatement credits, liable parties will offset some of the emissions from the electricity they supply, thereby reducing their average emission intensity to the benchmark level.

IPART will perform the separate functions of:

- licence regulator
- scheme administrator.

IPART's primary role as licence regulator will be to assess and report on whether liable parties have bought sufficient abatement credits to ensure their average emissions remain below their benchmark level.

IPART will also perform the function of the scheme administrator, with the primary role of regulating the creation, trading and acquittal of abatement credits. This will include verifying that abatement credits reflect genuine abatement of greenhouse gases. As scheme administrator, IPART intends to outsource the creation and operation of the abatement credit registry.

The ministry is developing detailed methods which will set out the technical operation of the scheme and the eligibility of parties to create abatement credits. These will cover:

- low emission generation
- carbon sequestration from the planting of trees
- energy efficiency programs
- non-electricity related abatement by large customers.

### Price and service report

IPART has released information on the performance of DNSPs for the financial year

2000–01 in its *Price and service report 2000/01*. This report provides comparative data on prices and service levels of the DNSPs.

### Gas

IPART is currently reviewing prices applicable to customers served by Origin Energy in Albury and a number of Murray Valley towns under its standard supplier's endorsement to its licence, and has also started collecting information for a review of prices charged by ActewAGL in Queanbeyan and Yarrowlumla.

In October 2002 IPART agreed to ActewAGL's proposed price path for low usage gas customers in the Shoalhaven area. Tariffs will decrease on 1 November 2002 and again on 1 January 2004.

IPART has decided to defer its mid-term review of AGL Retail Energy's voluntary pricing principles for low usage gas customers, as the business is currently negotiating with gas producers and is unable to put forward enough information on costs for public discussion of tariff changes. It has been deferred until the first half of 2003 and public consultation is expected to start late March 2003.

Country Energy Gas Networks is due to make its proposal relating to its network access arrangement on 1 January 2003. IPART's review of this access arrangement is expected during 2003, with the new arrangement to apply from 1 January 2004. A draft report would be released in June 2003, and the final report in October 2003. IPART's review of AGL Gas Network's access arrangement will run approximately six months later than that for Country Energy.

### Water pricing

IPART is currently conducting a review of prices for the following water agencies: Sydney Water Corporation, Sydney Catchment Authority, Hunter Water Corporation, Gosford Council and Wyong Council.

The review is a mid-term review for the Catchment Authority whose current price path runs until end June 2005. For the other agencies the review will set a two-year price path for the period from 1 July 2003 until 30 June 2005. IPART's reasons for deciding that it will make a two-year price determination include ongoing uncertainty about key aspects of the water agencies' operating environments and because it will enable better alignment of the periods for the price path and operating licences.



IPART released an issues paper in early June 2002 and called for agency submissions by 30 September. These submissions have now been received and are available on the IPART website. Submissions from other stakeholders and interested parties were due by 15 November 2002 and these have also been made available on the IPART website.

IPART will conduct public hearings as a part of the review in Sydney, Newcastle and the Central Coast starting in late November.

IPART has engaged Halcrow Pacific Pty Ltd to undertake a review of the capital expenditure, asset management practices and operating expenditure of the water agencies and has received a draft report on the outcomes of this review. When finalised and presented to IPART in early December this will be also placed on the IPART website.

Final reports and price determinations are scheduled for release in May 2003.

### **Water licensing**

A new operating licence for Hunter Water Corporation became operational from 1 July 2002. IPART is due to provide the minister with recommended terms and conditions for a new customer contract for Hunter Water by June 2003.

IPART has conducted mid-term licence reviews of Sydney Water and Sydney Catchment Authority. The associated reports were submitted to the relevant ministers in September 2002. The reports were publicly released in November and are available from Sydney Water's and the Catchment Authority's websites. A public workshop was held in July 2002 with particular emphasis on the demand/supply balance and the role of demand management. A copy of the transcript of this workshop is available on IPART's website.

### **Transport**

The NSW Government is applying to the ACCC for a rail access undertaking. In the interim, IPART will have a determining role under an amended NSW rail access agreement for various matters including capital additions and rate of return.

### **WACC discussion paper**

IPART released a WACC discussion paper on 19 August 2002 and submissions were due on 30 September 2002. A total of nine submissions were received of which eight came from utilities and one came from the Public Interest Advocacy Centre (PIAC).

The main issues on which IPART sought comments were:

- the use of a pre-tax or post-tax method
- the use of a statutory or effective tax rate
- the use of a real or nominal regime
- other WACC parameters.

In its recently released electricity issues paper, IPART has indicated that it is using a statutory tax rate and is inclined to use a real pre-tax WACC and using a statutory tax rate.

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## **ACT**

### **Independent Competition and Regulatory Commission**

#### **Pricing issues**

#### **Network pricing inquiries for electricity, water and wastewater**

The Commission has begun its inquiries into network pricing for electricity and water, including wastewater for the period starting 1 July 2004. The inquiry into electricity network pricing is being made under the provisions of the National Electricity Code. Water and wastewater are not covered by national legislation or regulations, the inquiry into water pricing is conducted under the industry inquiry provisions of the *Independent Competition and Regulatory Commission Act 1997*. The Commission is engaging IPART to assist in the inquiry process for both electricity and water. IPART has assisted the Commission in its past network inquiries. IPART's assistance offers distinct advantages to the Commission, as it is the regulatory authority for the surrounding region it is well acquainted with the ACT network businesses.

The inquiry timetable envisages three phases. In the first phase of the inquiry, the Commission will release its framework paper on electricity and water issues to start the public process in December 2002 and issue its data request to ActewAGL.

The second phase in March and April 2003 will include consideration of the data returns from the network service provider, review of capital and operating expenditure for 1999–2004 (the current price direction) and receipt of the price proposal from the network service provider.

The third phase, between June and September 2003, will focus on the release of the Commission's issues paper (June), public hearings and receipt of public submissions (August and September) and updated submissions from ActewAGL.

In the final phase, between November 2003 and March 2004, the Commission will release the draft report of the inquiry (November 2003), receive and consider stakeholder submissions on the draft report (December 2003), hold any additional public hearings and prepare and release the final report (March 2004). The three-month period from April to June 2004 has been set aside to allow for appeals against the final direction, as provided under the *Independent Competition and Regulatory Commission Act 1997*.

The Commission welcomes any comments on the process.

#### **Gas network price inquiry**

The Commission is required to consider revisions to the access arrangement agreed in 2000, at least to establish a gas network price to have effect from 1 July 2004. The inquiry is to be undertaken under the provisions of the gas code, with the Commission as jurisdictional regulator. The code requires that the network utility brings revisions to the access arrangement forward at least one year in advance of the expiry of the existing arrangements. The revisions are due by June 2003 and a final report in March 2004.

The Commission is engaging consultants to assist with the gas inquiry, subject to a tender process during November and December 2002.

#### **ACTION price inquiry**

The Commission has received a reference to inquire into and determine prices for ACTION services (public omnibus transport provider) to take effect from 1 July 2003 for a period of up to three years. The current direction expires on 30 June 2003. The last price direction was for two years from 2000. ACTION was recently created as a statutory authority (a Public Trading Enterprise) which clarifies its commercial focus and should assist in setting a price that is sustainable over a longer price path and should assist in clarifying the relationship with government agencies on community service obligation payments.

#### **Full retail contestability in electricity**

The government has announced that full retail contestability will start for all customers in the ACT from 1 March 2003. Currently, only customers



consuming more than 100MWh pa are contestable. The decision includes provision for:

- a safety net tariff for deemed standard customer contracts determined by the Commission to assist those who are disadvantaged by increasing electricity costs and the costs of full retail contestability
- costs associated with full retail contestability to be passed on to electricity rebate recipients through community service obligations payments
- load profiling to be adopted as an interim measure while the meter fleet is upgraded to the standard required in the National Electricity Code (interval metering)
- appointment of the Commission as the Metrology Coordinator for the ACT under the code
- continuation of transitional arrangements for up to three years, the arrangements relying on the continuation of the deemed standard customer contract until the customer enters a negotiated contract with a retailer. The transitional arrangements will cease following an inquiry to be conducted by the Commission after three years, or at an earlier time if appropriate
- a public awareness campaign to be delivered by the Commission in conjunction with electricity retailers and the network provider and overseen by the government.

The campaign will focus on circulation of information to consumers in the ACT during February. Information will be distributed to letter boxes, through print and electronic media and community organisations.

The Commission is also reviewing the codes and regulations under the *Utilities Act 2000* to ensure that the regulatory framework is appropriate for the contestable market. The Commission is in the process of reviewing, for example, the customer transfer code, consumer protection code (e.g. including for the first time regulations dealing with door-to-door sales) and introducing ring fencing and retailer of last resort guidelines.

## Tasmania

### Office of the Tasmanian Energy Regulator (OTTER)

#### Natural gas distribution and retail tender process

The Tasmanian Government has formally terminated the first attempt in Australia to run a large scale tender under the national gas code for the distribution and retailing of natural gas. The bids failed to deliver a stand-alone gas roll-out to meet the government's expectations for businesses and households. It would appear that the gas industry did not view the tender proposal as viable on a stand-alone basis. The government now seeks to form a strategic alliance for the delivery of a gas distribution project and is prepared to negotiate a package of direct assistance to facilitate the development of a distribution network. It is now likely that the completion of the roll-out to an estimated 100 000 premises will be realised over a longer period than originally intended.

#### Investigation into the pricing policies of the electricity supply industry

##### *Roll-over of the electricity pricing investigation*

The 1999 price determination for the electricity supply industry in Tasmania, which sets maximum prices that may be charged by electricity entities for the supply of certain electrical services, expires on 31 December 2002. However, given a number of key changes in the regulatory arrangements in the electricity supply industry that will apply after the state's entry to the NEM and the need to ensure that the price regulation arrangements that apply within Tasmania at the time of NEM entry are consistent with the national arrangements, the Treasurer has considered it prudent to extend the determination for a further 12 months. Accordingly, the regulator will make a pricing order that will maintain prices for a further 12 months in real terms and also allow the pass-through of the costs of renewable energy certificates to the retailer, as required by Commonwealth legislation.

#### Declaration of electricity services

The regulator recently published his *Declaration of electrical services: statement of reasons and proposal to revoke* in preparation for the 2003

investigation into the pricing policies of the Tasmanian electricity supply industry. The regulator has decided to retain the declaration of electricity distribution services and retail services to tariff customers on mainland Tasmania and to revoke the current declarations on system control services (including the procurement of ancillary services) and retail supply for customers on King and Flinders Islands. He has deferred his decision on electricity generation and transmission services on mainland Tasmania pending resolution of a number of issues raised through the consultation process.

#### Terms of reference for the 2003 investigation

The regulator has announced the start of his investigation into the pricing policies of those electricity entities that provide the declared services of electricity distribution and electricity retail on mainland Tasmania. The terms of reference of the investigation are available on the website at <http://www.energyregulator.tas.gov.au>. The regulator will make a determination specifying maximum prices or price control mechanisms for the declared distribution, metering and related services for 1 January 2004 to 31 December 2007; and declared retail tariffs and related services for 1 January 2004 to 31 December 2006. The final report will be released by 31 July 2003.

#### Proposed derogation to the Tasmanian Electricity Code (TEC)

Tasmania's price control regulations and the TEC provide the regulator with parallel avenues for the determination of maximum prices of distribution services. This has created inconsistencies and different emphases about procedure and the appropriate form of regulation. The regulator believes that to best give effect to the intention of the *Electricity Supply Industry Act 1995*, the TEC should be amended to retain the objectives and principles for distribution pricing but to derogate from the procedural and operational requirements. This will also align with the National Electricity Code regarding principles while recognising the need for transitional arrangements in the regulatory process.

#### Basslink

On 13 September 2002 the Victorian and Commonwealth governments approved the establishment of the Basslink interconnector linking the Tasmanian and Victorian electricity



grids by a high voltage direct current cable across Bass Strait. This is yet another step in paving the way for Tasmania to join the National Electricity Market, introducing competition in both the retail and generation sectors of Tasmania's electricity supply industry. Basslink will provide a major new source of energy to meet peak Victorian electricity demand and provide the capacity for Victorian energy retailers to sell off-peak power into the Tasmanian market. Basslink will also facilitate further development of energy resources within Tasmania, particularly wind energy, and improve security of supply for Tasmania particularly during periods of drought.

Basslink Pty Ltd is now the holder of a Tasmanian electricity transmission licence for which the regulator has responsibility for administering.

## Government Prices Oversight Commission (GPOC)

### *Investigation of the pricing policies of Metro Tasmania.*

The Treasurer has triggered an investigation into the pricing policies of Metro Tasmania Pty Ltd with the issue of terms of reference to the GPOC for the conduct of the investigation. Metro provides urban public transport and is predominantly funded by the government through a community service agreement. The GPOC is required to review the appropriateness of Metro's pricing policies through comparison with like operators both within Tasmania and elsewhere in Australia. The GPOC will consider the efficiency of the public transport services delivered by Metro and the effectiveness of the current arrangement with the government including incentive mechanisms for the purchase of services considering the cost of delivery and service levels. The GPOC has also been asked to provide advice on suitable indicators for the measurement of both efficiency and effectiveness with a view to their adaptation into future community service agreements. The GPOC's final report will be released in May 2003.

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## Queensland

### Queensland Competition Authority (QCA)

#### Electricity

As part of the regulatory reporting requirements, distribution network service providers (DNSPs) are required to submit audited regulatory accounts and ring-fencing compliance reports to the QCA annually by 31 October.

The QCA is currently in the process of assessing the DNSPs' regulatory accounting statements and ring-fencing compliance reports for 2001–02 to assess performance relative to the final determination and the ring-fencing guidelines issued by the QCA. The QCA will release a report on the financial performance of the DNSPs for 2001–02 based on information provided in the regulatory accounting statements.

The QCA's final determination on the 'Regulation of Electricity Distribution' sets the regulatory framework to apply to the DNSPs for the period 1 July 2001 to 30 June 2005. The National Electricity Code requires that the QCA give stakeholders two years notice of any change to the form of regulation and that it engage in a consultation process in deciding the future form of regulation.

The QCA has released a discussion paper that details the different forms of regulation available to the QCA under the code and outlines approaches taken in other jurisdictions. The paper invites stakeholders to make submissions to the QCA in relation to the most appropriate form of regulation for the next regulatory period by 31 December 2002. A final decision is anticipated by March/April 2003.

To meet the requirements of the code, the QCA will need to advise stakeholders of any change to the form of regulation to apply in the next regulatory period by 30 June 2003.

The QCA is also progressing work to develop a service quality incentive mechanism to be implemented in the next regulatory period. The QCA anticipates that this work will be finalised in the first half of 2003.

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#### Gas

QCA continues to progress several issues associated with the implementation of the approved access arrangements for gas distribution in Queensland.

Recent developments include:

- QCA's guidelines for ring-fencing compliance were sent to stakeholders and posted on the website in July. Consultation and negotiation with service providers on ring-fencing compliance and reporting matters is continuing
- with cooperation between service providers and the QCA, progress is being made with collecting and providing information necessary to monitor and assess service providers' ongoing compliance with the provisions of their access arrangements
- information provided by the service providers indicates that access arrangement review triggers for 2001–02, based on a comparison of actual with estimated demand, have not been activated
- Allgas has submitted a proposed associate contract for QCA approval. The contract relates to the provision of reference and non-reference service to its associate, Energex Retail. Following a public consultation process, QCA will determine whether or not to approve the contract based on the competition criteria outlined in the gas code
- Envestra has provided a final information package (to be provided to prospective access seekers) to QCA for approval. Allgas' information package is nearing completion
- as foreshadowed in its final decision on the gas access arrangements, the QCA has prepared a discussion paper on service quality monitoring and this should be released for public comment shortly.

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#### Rail

##### *Standard access agreement*

In March 2002 QR submitted for the QCA's approval a draft standard access agreement for coal carrying services. Following a process of consultation with stakeholders, the QCA identified a number of concerns with the March draft of the standard access agreement and sought a range of amendments. QR has agreed to the QCA's





proposed amendments and has included them in a revised draft standard access agreement submitted to the QCA on 29 October 2002. As a result, the QCA has approved QR's revised standard access agreement.

The QCA required the amendments to the March draft of the standard access agreement to improve the overall balance of the agreement and to provide greater clarity in the obligations of the parties. For example, the revised agreement clarifies the circumstances in which an operator may make a claim against QR for non-provision of access, or either party may claim against the other for a delay. It also better protects operator's interests by ensuring that QR may not exercise its suspension or termination rights until appropriate thresholds have been met.

It should be noted that the approved agreement is an operator access agreement. QR has committed to provide an end-user coal access agreement to the QCA for its approval by 31 December 2002. That agreement will set out the terms and conditions to allow an end-user (e.g. coal mine) to contract for access rights and to then directly contract with a third party for the provision of haulage. QR has also committed to develop a key performance indicator regime for coal carrying services over the course of 2003 and 2004.

The approved standard access agreement will form the basis for negotiations between QR and an access seeker for train services. QR and access seekers may agree to terms and conditions that differ from the standard access agreement. However, if negotiations fail, the approved standard access agreement would be the default agreement.

### **Capacity consumption charges**

On the QCA's approval of QR's access undertaking in December 2001, one matter that remained unresolved concerned the method for determining a capacity consumption charge for non-reference train services.

To reduce the uncertainty around this issue, the QCA is in the process of developing an arbitration guideline for publication. The guideline gives consideration to submissions received from Queensland Rail Network Access, Queensland Mining Council and Pacific National.

Although the guideline will outline a set of principles, the merits of applying these principles will be assessed on a case-by-case basis. The QCA expects to reach a decision on this matter by the end of 2002.

### **Reference tariffs**

The QCA has already approved reference tariffs for coal train services for existing mines in central Queensland. The QCA anticipates that in the coming months QR will submit new reference tariffs for proposed new mine developments at Hail Creek and Rolleston in central Queensland.

The reference tariff for Hail Creek will be the first opportunity for QR to price a new service in accordance with the pricing principles outlined in its undertaking. As such, the QCA will be seeking input from interested parties on the method used by QR to calculate this tariff.

The mine owners of the Rolleston development, Mount Isa Mines, released a competitive tender for all rail services required to service this mine. The tender is for the provision, maintenance, and management of the below rail infrastructure (the spur connecting the mine to the Blackwater System) and the provision of above rail haulage services. A new reference tariff will be developed for this mine when the tendering process has been concluded.

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### **Water**

#### ***Burdekin Houghton water supply scheme***

In September 2002 the QCA released for public comment a draft report on certain pricing matters relating to the Burdekin River Irrigation Area. Key issues in the draft report relate to capital contributions, the weighted average cost of capital, the existence of any excess return on capital in current prices, and the circumstances under which it would be appropriate to charge a positive rate of return on scheme assets. Submissions are being sought by 8 November 2002 on the key issues which need to be addressed, or further developed, in the final report. The final report is due to go to the ministers on 30 December 2002.

#### ***Gladstone Area Water Board***

In September 2002 the QCA released its final report of recommendations on the pricing practices of the Gladstone Area Water Board. The report has been forwarded to the Premier and Treasurer for their consideration.

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### **Local government**

The fifth review of councils' progress in implementing competition reforms started on 1 July 2002. The review covers reforms implemented by Queensland's 125 councils to 30 June 2002.

The scope of the review has increased considerably compared with previous years. This is attributed to:

- a significant increase in the number of business activities to be assessed (the Minister for Local Government and Planning approved an additional 217 new business activities and 18 new COAG water activities)
- an increase in the number of business activities, previously nominated under the scheme, to which reforms are being applied largely as a result of the Business Management Assistance Program delivered by the Local Government Association of Queensland.

A report and recommendations for payments to councils under the Local Government Financial Incentive Payments Scheme will be submitted to the ministers by 28 February 2003.

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## **Northern Territory**

### **Utilities Commission**

#### ***Competition in the NT electricity market***

In September 2002 NT Power—the only competitor to the Power and Water Corporation in the Territory's electricity market—advised the Commission of its intention to exit the electricity market. NT Power cited its inability to secure on-going gas supplies. Under s. 35 of the *Electricity Reform Act 2000*, NT Power has subsequently surrendered its licences for the generation and retail of electricity with effect on 1 November 2002.

As Power and Water is left as the sole supplier of electricity, the government has agreed to empower the Commission to exercise regulatory oversight of its wholesale energy (generation) charges. The Commission's mandate will be to ensure that prices paid by contestable customers are, on average, based on efficient, forward-looking costs and are no more than would reasonably be expected under competitive conditions.



The Commission already regulates Power and Water's network charges. Together, network and generation charges account for about 95 per cent of its retail costs. The final retail price paid by an individual contestable customer will continue to be a matter for negotiation between the customer and Power and Water.

In light of these developments, the government is expected to seek deferral of the public benefit test of full retail contestability and suspension of the contestability timetable agreed earlier with the National Competition Council. This would have the effect of halting contestability at the 750MWh per annum level in the NT.

### Review of network access code

The *Electricity Networks (Third Party Access) Act 2000* requires that the minister review the network access code before 30 June 2003. To assist in this regard, terms of reference have been issued for the Commission to inquire into and report on the effectiveness of the network access code in facilitating competition and the use of networks by electricity generators and retailers and preventing the exercise of market power by the owners/operators of electricity networks, including in light of experience with application of the code since 1 April 2000. The Commission is currently preparing an issues paper to facilitate community and stakeholder consultation on this matter.

### Benchmarking review

A benchmarking study of Power and Water's network operating and maintenance costs has started. A final report is anticipated by the end of the year to enable the Commission to incorporate the findings of this study when establishing the level of efficient network costs in the second regulatory control period.

### Annual power system review

The Commission is required, under the *Electricity Reform Act 2000*, to monitor and report on system capacity, including an annual review of trends in system capacity and reliability relative to forecast growth. The Commission is currently finalising its second annual review and anticipates that it will be published by the end of November 2002.

While the 2002 review again focuses on supply relative to demand and reserve margins, the Commission is also examining direct indicators of reliability and performance in terms of the

quantum and frequency of outages experienced in the power systems. Furthermore, in view of suggestions of an impending gas supply shortage in Central Australia, the Commission is examining the likelihood of such a shortage, the possible implications for electricity generation in the Territory and possible sources of alternative gas supplies. The Commission intends to suggest that barriers to competition could be avoided in future if any new gas supply and gas transportation contracts were established using a different structural arrangement than evident in the current agreements.

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