NETWORK

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Regulator in Profile

Alan Tregilgas

Mr Alan Tregilgas was appointed for four years on 1 April 2000 as the Northern Territory's new independent industry regulator. The role is part time. He will be supported in Darwin by a four person secretariat, and specialist consultants will be engaged as needed.

He remains a senior associate with Access Economics, the Canberra-based economic consultancy group.

As an economic consultant since 1996 Mr Tregilgas has worked with government agencies in six Australian jurisdictions, including the NT. He assisted the NT Government during the 1998 strategic review of the Power and Water Authority.

Mr Tregilgas is a former senior Commonwealth, SA and NT Treasury officer. He spent four years in the early 1990s as a utilities analyst with the Standard & Poor's Ratings Group in Australia and the Asia/Pacific region. For two years in the mid-1980s he represented Australia at the International Monetary Fund in Washington DC.

Mr Tregilgas holds a first class honours degree in economics from the University of Adelaide, and a masters degree in economics from the Flinders University of SA.

While regulation of the water and sewerage industries is expected to be added to the Utilities Commission's charter over the next year, the initial focus is exclusively on regulating the electricity supply industry.

Utilities Commission

The Utilities Commission was established on 21 March 2000, on the commencement of the *Utilities Commission Act 2000*.

The Act is modelled closely on SA legislation passed last year establishing that State's independent industry regulator. The NT Government explained the Commission's establishment in these terms.

> The Utilities Commission is a cornerstone of the proposed reforms of the Territory's electricity supply industry. …[The Commission] will provide independent and authoritative advice on matters such as utility pricing, access to infrastructure, service quality and security of supply. (NT Treasurer, Second Reading Speech, November 1999)

Its main functions in the competitive sectors of the industry are:

- issuing licences to generators and retailers selling electricity to contestable customers;
- settling disputes; and
- handling complaints.

Its main functions in the monopoly sectors are:

- issuing licences to network providers, to retailers selling electricity to non-contestable (franchise) customers, and to the power system controller;
- regulating network prices;
- regulating out-of-balance energy prices;
- regulating system control charges;
- conciliating network access disputes and, where necessary, appointing an arbitrator to settle disputes;
- approving network technical codes and protocols;
- approving dispatch and system security protocols; and
- setting service/performance standards for suppliers to non-contestable customers, and reporting on compliance with those standards.

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National developments

Telecommunications

Regulation review

The Productivity Commission (PC) is to review the telecommunications-specific competition provisions contained in the Trade Practices Act and other legislation.

Under the terms of reference the PC must report on the operation of the provisions and whether repeal or amendment is required.

It released an issues paper on 28 June seeking submissions by 31 July. Public hearings began in August. The PC is to report by June 2001.

The ACCC will make a submission to the review.

ACCC pay TV declaration

On 8 May the Federal Court of Australia issued a decision upholding the validity of the ACCC's pay TV declaration. Foxtel and Telstra had sought to have the ACCC's 1997 and 1999 declarations set aside, claiming that a protected contractual right existed.

The court decision means that, subject to capacity being available, Telstra must provide access to its hybrid fibre-coaxial (HFC) network to access seekers for the supply of pay TV services.

Wholesale charges for PSTN access

On 10 July the ACCC issued its final decision rejecting Telstra's proposed wholesale charges to competitors using its fixed line network. Telstra had proposed average charges of 2.3 cents per minute for 1999–2000 and 2.0 cents per minute for 2000–01.

The charges represent between 30 and 45 per cent of the costs of competitors using Telstra's fixed line network to supply long distance, fixed-to-mobile and mobile-to-fixed calls to their customers.

The ACCC concluded that the charges should be 1.77 cents and 1.53 cents respectively.

Unconditioned local loop service pricing

Telstra released its proposed prices for the unconditioned local loop service in June. The service allows competitors direct access to the copper lines which connect customers to local telephone exchanges, and so enables competition in the supply of local and long distance voice services and advanced, high-speed services. The service was declared by the ACCC under the Trade Practices Act in 1999.

The ACCC indicated that it had significant concerns about the pricing approach adopted by Telstra, including the apparent departure from the forward-looking, efficient cost approach of an optimised network previously applied by the ACCC.

Application for exemption

Telstra has applied to the ACCC for an exemption under part XIC of the Trade Practices Act from its obligation to supply local carriage service to its competitors in particular central business district areas.

The ACCC will issue a discussion paper and seek comments.

Local call resale pricing principles

On 20 April the ACCC issued a draft report on the pricing principles it will generally apply when assessing local carriage service arbitrations and undertakings. The local carriage service is a wholesale service used to resupply local calls to consumers and is currently the main form of competition in the local telephony market.

The ACCC is seeking comments from interested parties.

Intercapital transmission capacity

The ACCC announced on 6 June that it will hold a public inquiry into intercapital transmission capacity for telecommunications, to determine whether intercapital routes other than the Melbourne–Sydney–Canberra route should continue to be regulated under the ACCC's telecommunications access powers. The inquiry will focus on the Sydney–Brisbane route, which appears to have become more competitive, but will encompass all the currently regulated intercapital routes.

The ACCC has released a discussion paper and is seeking submissions from interested parties. A draft report should be released by end-October.

Telstra's interconnection processes

The ACCC investigated complaints that Telstra engaged in anti-competitive conduct in relation to its provisioning of services connecting its PSTN (telephone) network with other telephone networks.

The ACCC found significant and unprecedented increases in interconnection forecasts from industry from late last year, mainly related to increases in dial-up ISP traffic and from ISP traffic migrating from primary rate ISDN services onto the PSTN. Telstra had made efforts to meet this unanticipated demand, but the ACCC found a lack of transparency and clarity for wholesale customers in the forecasting, ordering and provisioning processes, particularly where capacity constraints existed.

The ACCC did not suspect Telstra of contravening the competition rule in part XIB of the Trade Practices Act but has asked Telstra to establish a transparent, consultative industry process.

Reports tabled

On 20 May two ACCC reports were tabled: *Telecommunications charges in Australia and Telecommunications competitive safeguards* to meet reporting requirements under the Trade Practices Act. They were subsequently released.

Access disputes (arbitrations)

Two telecommunications access disputes have been notified to the ACCC under part XIC of the Trade Practices Act since February 2000.

- Primus notified a dispute with Telstra concerning charges for local carriage service.
- AAPT notified a dispute with Telstra concerning price and non-price terms and conditions of access to local carriage service.

Contact: Michael Cosgrave ACCC (03) 9290 1914

Gas

Asset valuation forum

The ACCC's forum on issues surrounding the valuation of sunk assets within the regulatory framework was held on 16 June 2000 at the Hotel Sofitel in Melbourne. Over 150 people attended including international speakers Dr Luis Correia da Silva from OXERA and Dr John Small from the University of Auckland.

It supported a Depreciation Forum held in September 1999. Both were part of the ACCC's consultation process for finalising the Draft Regulatory Principles (DRP).

Generally, when dealing with asset valuation, scrap value provides a floor and depreciated optimised replacement cost (DORC) provides a cap, and it is between these bounds that there is room for regulatory judgment. However, the ACCC does not have complete discretion in choosing an asset valuation methodology. E.g. the National Gas Code nominates depreciated actual cost (DAC) and DORC as the minimum and maximum values, and the National Electricity Code requires the ACCC to consider the optimised deprival value (ODV) methodology.

The conference first dealt with asset valuation techniques and the international experience, with particular focus on asset valuation methodologies and their practical implementation.

It was generally accepted that there is no real intellectual alternative to DORC for sunk assets where an alternative valuation is not available. Dr Luis Correia da Silva noted that although sale price was initially used for valuing regulated assets in the UK, subsequent revaluations have indicated a convergence towards DORC. However, while DORC is seen as the preferred methodology its application needs consideration, ideally with guidelines to improve consistency and objectivity in valuations, especially for the optimisation process. The ACCC agreed and the DRP already outlines an intention to develop a DORC guideline before 31 December 2002.

The valuation of land and easements was also given special attention. The discussion on land valuation for Sydney airports provided new insights. Stephen King made a particularly strong case for valuing all alternatives at the same price, thereby implying an opportunity cost of zero, to ensure the correct incentives are achieved.

The issue of asset base roll forward and the relationship between asset valuation methodology and alternative rate of return concepts were also discussed.

The *Statement of principles for the regulation of transmission revenues,* expected to be finalised by the end of this year, will discuss many of these issues in detail.

For information about the forum contact Kanwaljit Kaur on 02 6243 1259 or Ainslee Wilton on 02 6243 1264. Notes can be purchased from Maxine Helmling on 02 6243 1246.

Electricity

Authorisations

National Electricity Code

On 27 September 1999 NECA lodged applications for authorisation of amendments to the code resulting from:

- its review of capacity mechanisms in the NEM;
- the reliability panel's review of the value of lost load; and
- the code's requirement that negative spot prices be allowed within 12 months of the market commencing.

The ACCC received amendments to the applications on 26 April 2000 and granted interim authorisations on 2 December 1999 and 21 June 2000 in relation to administered price floor arrangements and the capacity mechanisms provisions. It released its draft determination on 21 June 2000.

A pre-determination conference was held in Melbourne on 18 July 2000 and the ACCC will consider any issues raised as well as any related submissions before issuing a final determination.

QLD MNSP derogations

On 15 November 1999 NECA submitted code changes on behalf of the Qld Government. The changes were to facilitate the operation of the

DirectLink interconnector and to clarify a number of typographical errors in the provisions dealing with Qld. To facilitate the DirectLink interconnector, the ACCC granted interim authorisation on 8 December 1999.

Final authorisation was granted on 21 June 2000.

NSW derogations

On 29 April 1999 the NSW Government requested authorisation for derogations relating to intra-regional loss factors. Subsequent amendment of the applications added additional derogations concerning network pricing arrangements in NSW during a transitional period.

The derogations provided that intra-regional loss factors would continue to be determined by IPART until 30 June 2000. The purpose of the derogation is to manage the price risk for smaller customers who may face higher loss factors under NEMMCO's methodology.

With regard to transmission regulation, the objective of the derogations is to provide a smooth transition from State-based regulation to the code, by facilitating the implementation of the ACCC's regulatory decisions.

The application also included amendments to allow the ACCC to set the opening asset value for transmission assets located in NSW, in addition to providing specific transitional arrangements to apply to the allocation of network costs, transmission prices, settlements and transfers between networks.

The ACCC held a pre-determination conference on 16 May 2000 in Canberra and on 21 June 2000 granted the authorisation.

Regulation

SMHEA transmission network revenue cap

On 6 June 2000 the ACCC, at the request of the Snowy Mountains Council and in accordance with its responsibilities under the National Electricity Code, released its draft decision on the appropriate revenue cap to apply to the non-contestable elements of the Snowy Mountains Hydro-Electric Authority's transmission network for the five year period ending 30 June 2004.

The draft decision considers regulatory issues such as the opening asset base, the return on equity capital and the treatment of capital and operational expenditure.

There was a public forum on the draft decision 22 June 2000. The ACCC will consider issues raised at the forum and written submissions when making its final decision.

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Airports

The ACCC made several draft and final decisions under the new investment provisions of the Prices Surveillance Act. These provisions allow airport operators to recover the costs of new infrastructure expenditure without affecting compliance with the CPI-X price cap. The decisions are available on the ACCC website.

Melbourne

Multi-user domestic terminal

The ACCC issued a final decision approving a new charge to fund an $8.4 million passenger terminal to allow new airlines to operate in independent facilities. The charge will be no more than $1.65 per passenger with discounts to be negotiated by the parties.

The ACCC's draft decision was for a smaller charge. However, Impulse Airlines expressed the concern that the lower charge might result in Australia Pacific Airport Melbourne (APAM) not proceeding with construction. Impulse and APAM agreed on a $1.65 charge.

After the draft decision was released APAM and Virgin Blue continued to negotiate and reached agreement. In reaching its final decision the ACCC had regard to the commercial agreement between APAM and Impulse for the $1.65 charge.

NNI projects

The ACCC released a draft decision on a range of projects at Melbourne Airport which include extending an elevated road that services the terminal buildings and widening a freight apron. The draft approves an increase in the landing charge of 8.6 cents per tonne and an increase in the international passenger charge of 2.77 cents per tonne.

In relation to some of the projects the question was raised whether the costs of investments that the FAC has committed to should be recoverable by the airport's new operators. The ACCC's draft decision is that such projects are not be recoverable.

Canberra

The ACCC approved Canberra Airport's proposed charge of $0.589 per passenger to fund a new apron. The apron is a common user facility that will cater for Impulse and other new entrants as well as for growth by Qantas and Ansett.

Not all users supported the project. Canberra Airport, Impulse and Ansett undertook detailed consultation while Qantas appeared less involved in the process. The ACCC encouraged all parties to work together to resolve the issues.

Darwin and Alice Springs

ACCC released a draft decision on an application by Northern Territory Airports (the operator of Darwin and Alice Springs airports) to recover the costs of a range of necessary new investment projects. The draft decision was for a 16.86 cents increase in the general landing charge at Darwin Airport and an increase of 1.67 cents in the general landing charge at Alice Springs Airport.

Contact: Margaret Arblaster ACCC
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National Competition Council

Gas

Eastern gas pipeline

The NCC has released its final recommendation in respect of AGL Energy Sales and Marketing Ltd's application for coverage of the Eastern gas pipeline, recommending coverage because it considered the pipeline meets the four coverage criteria. In particular it was satisfied that it would be uneconomic to develop another pipeline, and that access to the services of the Eastern gas pipeline would promote competition in the south east Australian gas sales market.

The recommendation is available at the NCC's website.

The Minister had 21 days from 3 July 2000 to decide the matter.

Moomba to Sydney pipeline system

On 28 April 2000 East Australian Pipeline Limited, as owner and operator of the pipeline system, applied for the revocation of coverage of three trunk pipelines within the Moomba to Sydney pipeline system under the *Gas Pipelines Access (NSW) Act 1998* and the *Gas Pipelines Access (SA) Act 1997*.

The system carries gas from Moomba in SA to Wilton in NSW, delivering gas into NSW and the ACT and joining with the interconnect which carries gas into Victoria. The three trunk pipelines for which revocation of coverage was sought are the main pipeline running from Moomba to Wilton and the transmission pipelines branching off to Canberra and the interconnect.

The NCC made its recommendation to the Commonwealth Minister for Industry, Science and Resources on 15 August 2000. The Minister had 21 days to decide the matter.

NSW gas

The NCC conveyed its recommendation on certification of the NSW Gas Access Regime to the Commonwealth Minister for Financial Services and Regulation in March 1999.

The Minister's decision has been delayed pending resolution of cross-vesting issues arising from the High Court decision in *Re Wakim: ex parte McNally*.

Queensland gas

The NCC conducted public consultation on certification of the Queensland gas aAccess regime in April 1999.

The regime applies the national gas access code to Qld gas pipelines, but includes a number of derogations (variations) from the national code that affect transmission pipelines. The principal derogations relate to pricing policies for four major transmission pipelines (see table below). In effect, the access pricing principles in the national code do not apply to these pipelines for several years.

Pipeline licence (PPL) number	Description of pipeline	Revisions commencement date (derogation terminates)
2	Wallumbilla to Brisbane	29 July 2006
24	Ballera to Wallumbilla	30 December 2016
30	Wallumbilla to Rockhampton via Gladstone	The sooner of: — the date the capacity of the pipeline exceeds the nominal capacity specified in the pipeline licence or — (b) the date the regulator approves revisions that must be submitted by 31 August 2016
41	Ballera to Mt Isa	1 May 2023

When Queensland applied for certification of its regime in September 1998, the NCC was required to consider implications of the derogations. The approach agreed was to consider whether the regulatory processes for the derogated pipelines — including pricing outcomes — provide a **reasonable proxy** for the national code and, if not, whether discrepancies are significant. The NCC sought ACCC advice.

The ACCC made a substantial report and the NCC is considering it. The main body of the report will be available on the NCC's website.

The NCC notes that the Queensland regime was enacted in May 2000. While not currently certified, its provisions — including obligations on pipeline owners — now apply.

Qld pipelines subject to derogations

Northern Territory gas

On 20 April 2000 the NCC received applications from Envestra Limited to revoke coverage under the *Gas Pipelines Access (Northern Territory) Act 1998* of the following natural gas pipelines owned by Envestra:

- the Palm Valley to Alice Springs (transmission) pipeline; and
- the Alice Springs gas distribution network.

On 6 July the NCC recommended that coverage of each pipeline be revoked, saying it was not satisfied that regulated access to the pipelines would promote competition in another market or confer net public interest benefits.

The Hon Daryl Manzie, MLA, NT Minister for Resource Development had 21 days to decide the matter.

Rail

Western Australian rail

The WA Government applied for certification of the WA Rail Access Regime in February 1999. The NCC's public process identified a number of issues, subsequently addressed by WA. Among the refinements agreed to was the creation of an independent rail access regulator with broad powers to enforce compliance with the regime.

The NCC released a draft recommendation in September 1999, stating its preliminary view that the amended WA Regime would be an effective access regime. The NCC received 11 submissions on the draft and liaised further with key stakeholders — a number of additional concerns were identified. The NCC has now reached agreement with Western Australia on addressing most of these issues. Discussions are continuing with Western Australia on the interface between the national and WA access arrangements.

NT/SA rail

On 23 March 2000 the Treasurer certified a regime covering the proposed rail line from Darwin to Tarcoola until 31 December 2030. The Treasurer's recommendation was consistent with the NCC's.

The regime submitted to the Treasurer was significantly different to that submitted to the NCC for consideration in March 1999.

The regime now incorporates a balanced approach to access. It provides a framework for access negotiations that gives investors sufficient certainty to proceed with the project, while ensuring access on terms and conditions that could be expected in a competitive market.

Electricity

NT electricity

In December 1999 the NT Government lodged a regime covering its electricity network, requesting that the NCC consider recommending its certification to the Minister.

The NCC released an issues paper and called for public comment. It received submissions from potential new entrants and significant users of NT electricity. The issues paper and submissions are available from the council's website.

Having reviewed these submissions and a report from its consultant, Network Economics Consulting Group Pty. Ltd., the NCC outlined a range of concerns for the NT Government's consideration. The NCC expected to consider a draft recommendation in late August.

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State developments

Victoria

The Office of the Regulator-General

Electricity

Electricity retailing is progressively being opened to competition, with customers consuming more than 160MWh/year currently able to choose their electricity retailer. On 1 January 2001 the retail franchises will expire, and retail competition for the remaining two million domestic and small business customers will be implemented through 2001.

Distribution prices are regulated under the tariff order until the end of 2000; the Office of the Regulator-General (ORG) is determining new distribution price controls to apply from January 2001 until at least the end of 2005. From 2001 responsibility for regulating transmission will transfer from ORG to the ACCC.

Retail prices for non-contestable customers (termed maximum uniform tariffs) remain regulated under the tariff order until the retail franchises expire on 31 December 2000. Amendments to the *Electricity Industry Act 1993* made early in 2000 gave the Victorian Government reserve powers to regulate retail prices for prescribed classes of customers from 1 January 2001.

Monopoly service standards are regulated by ORG through the licences and the following industry codes:

- System code (transmission);
- Distribution Code; and
- Supply & Sale Code and Retail Tariff Metering Code (retailing to non-contestable customers).

The Supply & Sale Code expires when the retail franchises end on 31 December 2000 and will be replaced with a retail code. The Distribution Code will continue with significant amendments, while the future of the System code and the Retail Tariff Metering Code is under consideration (see below).

Electricity distribution price review

The ORG is conducting an electricity distribution price review to establish new distribution price controls and service standards for 2001–05. The price controls will apply only to the distribution component of an electricity bill, which represents between 30 per cent and 50 per cent of customers' total electricity bill, depending on their location and consumption.

The principal objective of the review is to provide sustained incentives for the distributors to increase their efficiency and reduce costs and prices, while maintaining and improving the reliability and quality of service. Distributors will be able to retain, for a period, the benefits of efficiency gains, to provide them with incentives to make greater gains than would otherwise occur, before they are passed on to customers.

Draft decision

In May 2000 the ORG released its draft decision for 2001–05 which, among its recommendations, proposed that a real reduction in distribution charges of 15–20 per cent, equivalent to a reduction in the average household electricity bill of about $35–$65, with customers of rural distributors receiving the largest reductions.

A final determination will be made in September 2000, following further consultation and analysis. More public forums are planned in Melbourne and regional centres. ORG will continue to prepare for a possible appeal against its decision.

Connection to and augmentation of networks

Distribution

In the above draft decision ORG proposed new principles for calculating customer contributions to connection and augmentation works. It was concerned that the method by which capital contributions for customers are currently set may encourage inefficient outcomes, in particular the adoption of a network solution where a non-network solution may be more efficient, and vice versa. These principles also set out principles relating to connection of embedded generators (e.g. cogenerators, wind farms and grid-connected photovoltaic systems).

ORG will finalise the principles for calculating customer contributions in its final decision. It will also complete its review of Electricity Guidelines 1 and 2 (which relate to customer-initiated connection to and augmentation of the distribution network).

ORG dealt with several disputes between customers and distributors over the fairness and reasonableness of offers to connect customers to a transmission or distribution network, augment existing connections, or provide other services (e.g. the relocation of power lines over private land). Under the transmission and distribution licences, any question about the fairness and reasonableness of such offers is to be decided by ORG. Most disputes were resolved without proceeding to a formal decision.

Transmission

A complaint by AGL Electricity and Powercor Australia about the terms of an offer by GPU PowerNet to augment the transmission connection capacity of Keilor Terminal Station was the subject of a draft decision in February 2000, and has been largely resolved. This dispute is expected to

be finally resolved late in 2000, following ORG's final determination on distribution prices.

Annual tariff approvals

During 1999–00 ORG approved the following electricity charges and tariffs for 2000–01, in accordance with the Government's tariff order:

- transmission fees and charges payable to VENCorp and GPU PowerNet by distributors, generators and customers directly connected to the transmission grid;
- distribution tariffs charged by distributors to contestable customers, which are regulated by CPI-X price controls in the tariff order; and
- maximum uniform (retail) tariffs charged by retailers to franchise or non-contestable customers, which are regulated by CPI-X price controls in the tariff order until the end of 2000.

Residential customers have seen a 17 per cent real reduction in price since July 1994, with 9 per cent resulting from price controls and 8 per cent from the winter power bonus. Further details of price movements are contained in ORG's annual performance reports on the distribution businesses.

Full retail competition

ORG's work on full retail competition is to ensure that users and consumers benefit from competition and efficiency. The following specific objectives were defined.

- Customers must benefit from the introduction of retail competition through an improved mix of price and service. In particular, customers should benefit from the abolition of franchise fees and any reduction in generation prices following the end of the vesting contracts put in place before privatisation.
- Competition should be sufficiently robust and effective to ensure these benefits are realised by customers.
- The costs involved in implementing full retail competition are consistent with the delivery of net benefits to customers through effective retail competition.

ORG is particularly concerned to ensure that:

- customers are able to change retailers with low switching costs and minimal delay, and are able to obtain supply at appropriate minimum terms and conditions; and
- metering requirements do not impede customer choice, but the efficient take-up of interval metering over time is encouraged, to allow improved price structures and assist customers to better manage their demand.

Licensing

During 1999–00 the ORG simplified and published its guidance to potential applicants for a licence to generate, transmit, distribute, or sell electricity. This guidance has streamlined the application process for new licensees. This document has been aligned with ORG's guidance to prospective gas licensees.

With the opening of full retail contestability ORG anticipates that the number of applications for retail licences will increase. In 1999–00 it developed more rigorous tests for assessing applications for retail licences, in particular applicants' financial viability and technical capacity. Summaries of these tests will be included in the guidance document.

Review of system code

Following consultation with transmitters, VENCorp, distributors and other key stakeholders, the ORG issued final draft amendments to the System Code (prescribing performance standards for the transmission system) in June 2000.

The revised code was due to be issued in July 2000. Whether it continues to operate after 1 January 2001, and in what form (in view of the transfer of regulatory responsibility for transmission to the ACCC), will be decided once the outcomes of the Government review of transmission and generation licensing requirements are known. The ORG's current expectation is that the code will be revoked on 31 December 2000.

Performance monitoring and reporting

In January 2000 the ORG issued a summary report on the service performance of the distribution businesses for January–June 1999.

A full report on the financial, price and service performance of the businesses for 1999 was largely complete by the end of 1999–2000 and was due to be published in August 2000. The publication date was delayed to allow the distributors time to comment after responding to the ORG's draft decision on the electricity distribution price review.

In future reports ORG intends to include a more detailed comparative analysis of the rate of disconnections between the electricity and gas utilities.

Regulatory accounting requirements

Following extensive consultation with distribution businesses and other interested parties, the Regulator-General approved revisions to electricity Guideline 3 in April 2000. They specify the form and content of the financial accounts that distribution businesses must submit to ORG.

As part of the price review ORG has commissioned a thorough analysis of the allocation of costs between distribution and retailing to help in its

final determination and further amendments of Guideline 3.

Gas

Licensing

The *Gas Industry Act 1994* requires that, unless exempted, a person must not provide services by means of a distribution pipeline or engage in the retail sale of gas unless the person holds a licence authorising the relevant activity. ORG may grant or refuse a licence for any reason it considers appropriate, having regard to its objectives under the *Gas Industry Act 1994*.

Industry performance reports

ORG made good progress towards meeting the difficult challenge of establishing comprehensive performance reporting for the gas distribution and retail businesses, and is confident that the first gas industry performance report will be issued later in 2000. Reports for subsequent years will be published more promptly.

In November 1999, after extensive public consultation, ORG issued *Gas industry — performance indicators information specification*. The specification enabled the gas businesses to commence collection of data that has been clearly defined.

ORG has now collected data from the industry for 1999 and expects to publish its 1999 gas industry performance report in the spring of 2000.

Melbourne retail water

ORG's role in relation to water industry regulation involves the three retail metropolitan water companies only. This role has focused on non-pricing, customer service issues. Responsibility for regulation of metropolitan water and sewerage prices, and of the non-metropolitan urban, rural water authorities and Melbourne Water, rests with Government.

In particular, ORG's functions in relation to the water industry include ensuring compliance with performance standards established by ORG and publishing comparisons of the performance of the water businesses to facilitate surrogate competition (competition by comparison). These functions target ORG's key objectives under the *Water Industry Act 1994*.

An important implication of these objectives is that ORG must carry out its regulatory role mindful of the balance between the financial implications on the water companies (and, ultimately, their customers) and the customer service implications.

In this context ORG's major water industry activities over 1999–00 have included:

- monitoring of water industry performance and publishing the performance report covering 1998–99;
- conducting operational audits of City West Water, South East Water and Yarra Valley Water; and
- preparing for expanded regulatory audits.

In February 2000 ORG published its fourth report comparing the performance of Melbourne's three retail water and sewerage licensees. The aim of the report is to stimulate competition by comparison and inform customers about the service levels they receive. The report was based on information reported by the licensees in accordance with ORG's requirements and on the results of independent audits of the quality of the reported data and of the licensees' compliance with performance requirements.

The next report will be in January 2001.

Rail

ORG's objective for the rail industry is, in addition to the objectives under the *Office of the Regulator-General Act 1994*, to ensure that users have fair and reasonable access to declared rail transport services. The *Rail Corporations Act 1996* will enable persons seeking access to apply in writing to ORG.

Resolving disputes

The rail access regime that ORG will administer is based on the negotiate/arbitrate model. That is, third parties negotiate the terms and conditions of access for their trains with the vertically integrated rail operator.

A key to the success of the negotiating phase is adequate information from both parties.

To facilitate commercial negotiations ORG began developing guidelines by releasing a discussion paper in April 2000 seeking public comment on draft Guidelines 1 and 2. The Department of Infrastructure (DoI) also released a discussion paper, *Proposals for implementation of the Victorian rail access regime*. Both papers should be read in conjunction with the other.

Western Australia

Water

Monitoring industry performance

Water service customers and providers will be better informed about the performance of their water and sewerage schemes as a result of benchmarking activities being undertaken by the Office of Water Regulation (OWR) and its licensees.

As reported in the last issue of *Network*, the Water Corporation, Aqwest-Bunbury Water Board, Busselton Water Board and the South West Irrigation Management Cooperative (SWIMCO) agreed to participate in an ongoing benchmarking process.

The first performance data for Water Corporation supply and sewerage schemes that serve more than 2000 connections was received by OWR in March 2000. These schemes operate in metropolitan Perth and more than a dozen other towns, including Albany, Geraldton and Kalgoorlie.

From 1 September 2000 and then on an annual basis, the majority of WA's population will be covered by the data collection, which will expand to include schemes serving 1000 connections, raising the total to more than 30 towns around the State.

OWR will use this information to inform customers about the performance of their water service providers, and service providers will be able to compare their operations with similar schemes. In a natural monopoly environment this information will allow OWR to introduce 'competition by comparison'.

Licensing guidelines now available

The OWR licensing guidelines booklet is now available. It describes the role and objectives of the Office's licensing process and relationship to other regulators, while providing current and potential service providers and their customers with an understanding of the OWR position on licensing water utilities.

The booklet covers central clauses and objectives of the water industry reform process, which led to the introduction of the *Water Services Coordination Act (1995)* and shapes the licensing framework, together with licence amendments and excisions, the application process and common licence terms and conditions. OWR's approach to dealing with services in 'greenfield' areas where none are currently provided is also addressed. Copies of *Licensing guidelines* are available from OWR.

Contact: Mr Daniel Nevin, OWR
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Plumbers Licensing Board

The establishment of the Plumbers Licensing Board, predominantly made up of industry representatives, is a major achievement for the plumbing industry in Western Australia. This development is critical in maintaining the protection of public health and safety, and the environment, from the impact of unsuitable plumbing systems, and provides the first opportunity for the State's licensed plumbers and licensed tradespersons to influence the industry's development and direction in the State.

The key responsibilities of the board are to maintain the quality of standards and services, and represent the interests of plumbers and consumers of plumbing services.

An accurate record of all plumbing tradespersons in WA will be established to provide improved identification systems. Action will be taken as appropriate against unlicensed persons and a public education campaign will be launched to ensure consumers are aware of the risks involved, in terms of both safety and insurance, of having plumbing work undertaken by unlicensed and unqualified 'handy-persons'.

Customer service

The delivery of quality customer service is a critical success factor for WA's water service providers. To stimulate continuous improvement OWR fosters strong partnerships within the industry while promoting a shared vision through innovative ideas and creative solutions.

OWR uses its central position to link service providers and encourage a 'whole of industry' approach towards achieving excellence in customer service through a range of strategies. Embedded in the licensing framework are provisions relating to levels of service which aim to establish a mechanism for ensuring consistent service and meeting customers' needs. This has already produced significant outcomes with licence holders developing customer service charters, customer feedback mechanisms and complaint handling processes as part of their licence obligations.

OWR implemented in early 2000 was the OWR-sponsored customer service bus tour, which gave participants from the water industry an opportunity to visit award-winning companies and learn about new service strategies.

Industry awards

The Office of Water Regulation again hosts the annual WA Water Industry Awards in October 2000 during Water Week. This high profile event showcases the industry's best products and practices.

The awards are strongly promoted through metropolitan and rural media. The event spotlights those working to improve water use and management areas.

Gas

The regulator

The Western Australian Independent Gas Pipelines Access Regulator administers the National Gas Pipelines Access Code for Natural Gas Pipeline Systems for transmission and distribution pipelines in WA.

Currently there are six State pipelines or pipeline systems covered by the code. Their code status is summarised in the table below. On 18 July 2000 the regulator granted final approval to the access arrangement for the AlintaGas mid-west and south-west gas distribution systems. The proposed arrangements of four other pipelines are at various stages of approval. The requirement to lodge a proposed access arrangement for the remaining pipeline (Kambalda lateral) has been deferred until 1 December 2000.

AlintaGas distribution systems

Final approval was granted on 18 July 2000 after AlintaGas made amendments to its proposed access arrangement.

The initial capital base was determined to be $535.9m as at 31 December 1999.

The final decision gave rise to an overall reduction in average tariffs of approximately 4 per cent compared with those originally sought. It also required that distribution tariff margins for residential and small business customers provide scope for competition between gas traders at the retail level.

The rate of return on equity was determined at 12.7 per cent (nominal post-tax) consistent with a weighted average cost of capital of 7.5 per cent (real pre-tax).

Ring fencing

Two draft decisions have been issued on ring fencing — one for the Parmelia pipeline and the other for the Tubridgi pipeline system — not granting waivers of ring fencing obligations under ss 4.1(b), 4.1(h) or 4.1(i) of the code.

The draft decisions were issued within the required timeframe pending advice on whether discretion was available for the regulator to grant waivers that were made subject to conditions including the inclusion of a sunset clause.

Sufficient time was allowed as part of the public consultation process to consider all of the outstanding issues before the final decision.

Contact Peter Kolf: *Off*GAR
08 9213 1999

New regulations for gas supply

In a 5 July 2000 press release the WA Office of Energy announced another milestone for the WA Government's energy regulatory reform process, with the promulgation of the new Gas Standards (Gas Supply and System Safety) Regulations 2000.

The WA Government recognised the need for an adequate technical and safety regulatory regime to be in place before the AlintaGas sale is completed and these regulations fill what was seen as a gap in the existing regulatory framework. They will be administered by the Director of Energy Safety of the Office of Energy.

Contacts: Director of Energy Safety
Albert Koenig
08 9422 5201

Principal Engineer Gas Supply, Geoff Wood
08 9422 5294

Website: http://www.energy.wa.gov.au

Pipeline	Date access arrangement	Status
AlintaGas distribution systems	30 June 1999	Final decision issued 30 June 2000. Final approval granted 18 July 2000.
Dampier to Budbury natural gas pipeline	15 December 1999	Public submissions closed 17 March 2000. Draft decision expected during October 2000
Goldfields gas pipeline	15 December 1999	Public submissions closed 3 March 2000. Draft decision expected during October 2000.
Kambalda lateral	Deferred	Extension granted to 1 December 2000.
Parmelia pipeline	7 May 1999	Draft decision issued 27 October 1999. Final decision expected September 2000.
Tubridgi pipeline system	21 October 1999	Public submissions closed 10 December 1999. Draft decision issued 7 August 2000.

South Australia

South Australian Independent Industry Regulator (SAIIR)

Work is progressing on establishing the processes and systems to support the operations of the SAIIR Office. The following description outlines current major activities.

Electricity

Licensing

Transgrid. A transmission licence application from Transgrid is being considered concerning the proposed SNI interconnect from Buronga in NSW to Robertstown and/or Berri in SA.

The project is the subject of two other review processes, viz approval under the *Development Act 1993*, for which Transgrid has to prepare an environmental impact statement (EIS), and approval by NEMMCO of the proposed regulated status of SNI under the National Electricity Code. To allow Transgrid to enter onto land (as contemplated by s. 45 of the *Electricity Act 1996*) to complete an EIS, it has a temporary exemption from the licensing provisions of the Act, subject to it being treated as an electricity entity for the purposes of s. 45.

National Power South Australia Investments Ltd (NPSAIL). A generation licence application has been received from NPSAIL to operate the Pelican Point power station near Adelaide. The station, utilising combined cycle gas turbine technology, is scheduled to begin operating late in 2000 and will have an eventual capacity of 487 MW.

SA Government electricity privatisation program. SAIIR is involved in the transfer of licences to privatised entities. On 6 June the generation licence held by Optima Energy Pty Ltd (for Torrens Island Power Station) was transferred to TXU (South Australia) Pty Ltd. Similarly, the generation licence held by Synergen Pty Ltd (for Dry Creek, Mintaro, Snuggery and Pt Lincoln power stations) was transferred to National Power Synergen Pty Ltd.

Review of licences. SAIIR has begun a review of licences still in force which were issued under the Electricity Act before 11 October 1999 (the date on which new electricity regulatory arrangements commenced). They relate mostly to electricity operations in off-grid areas of the State. A discussion paper is available on SAIIR's website.

Performance monitoring

SAIIR is preparing information requirement guidelines for the major regulated businesses in SA, viz ETSA Utilities (distributor), ElectraNet SA (transmitter) and AGL SA (franchise retailer). The guidelines will cover the reporting of financial performance (regulatory accounts), operational performance and matters to be dealt with under the electricity pricing order. Other SAIIR guidelines being prepared concern compliance systems and reporting, confidentiality, and consultation processes. Draft guidelines will be available for comment from the SAIIR website by end-July.

Initial reports have been received from ETSA Utilities and ElectraNet SA, as required by the distribution and transmission codes respectively, concerning performance against specified service standards for the 12 months ending 31 March 2000. These reports are being reviewed in conjunction with the entities, and will help SAIIR to prepare its public reporting of such performance, scheduled for September 2000.

Both codes incorporate performance incentive (PI) schemes which provide that ETSA Utilities and ElectraNet SA may earn additional revenue under the Electricity Pricing Order if performance is significantly better than specified service standards. The SAIIR has incorporated into the ETSA Utilities scheme for 2000–01 performance measures relating to poorly performing feeders as determined by frequency of interruption. It is hoped that this will inspire ETSA Utilities to improve reliability at these feeders.

Pricing and competition

Network issue 3 outlined the terms of reference for an inquiry into the current level of charges for street lighting in SA, to be undertaken by the SAIIR pursuant to part 7 of the *Independent Industry Regulator Act 1999*. Street lighting tariffs are levied on local councils in SA by the franchise retail business, AGL SA. The inquiry commenced on 1 March 2000. Initial submissions from the Local Government Association, AGL SA, ETSA Utilities and Transport SA were considered. A public discussion paper was released on 3 July (refer SAIIR website).

Submissions received in response to the discussion paper will form the basis for the draft report, due by 1 September. The final report is to be submitted to the Treasurer by 30 November 2000.

The SAIIR has, since 11 October 1999, been administering the electricity pricing order issued on that date by the Treasurer pursuant to s. 35B of the Electricity Act. The order applies to transmission and distribution network services until 31 December 2002 and 30 June 2005 respectively, and to franchise retail prices until 31 December 2002. From 1 January 2001 the ACCC will administer the order as it relates to transmission services. On 29 June the Treasurer introduced into the Legislative Council the Electricity (Pricing Order and Cross-Ownership) Amendment Bill, designed to correct various inconsistencies in the pricing order as issued on 11 October 1999. Three of these relate to the determination of the maximum revenue allowed to be earned by ElectraNet SA and ETSA Utilities. Passage of the

legislation is essential to ensure that the order delivers its intended outcomes.

The SAIIR recently commissioned the SA Centre for Economic Studies (SACES) to undertake a literature survey of the willingness of consumers to engage in a trade-off between price and reliability of electricity supply. The SACES report is available on the SAIIR website. It suggests that consumers may be prepared to accept a 2–3 per cent increase in price in return for increased reliability.

The SA Vesting Contracts assign to the SAIIR the role of making determinations in respect of certain *force majeure* and 'regulatory disruption' events. Recently, all of the SA generators served regulatory disruption notices relating to the change in the method by which NEMMCO will collect ancillary service charges (refer schedule 9G, para 6.2A (at pp 191–2) of the National Electricity Code) which commenced on 1 July 2000. Now both market customers and generators share these charges which were previously borne by the market customer alone (the retailer). The notices require the SAIIR to determine if an applicable change has occurred and, if so, to determine the first subsequent calculation period, the total effect and the pass through price under the relevant vesting contract(s).

Consumer issues

The SAIIR Office has established a Consumer Advisory Committee, as required by s. 14A of the Electricity Act, to provide advice from a consumer perspective on the electricity regulatory activities of the SAIIR. The committee includes representatives from the Employers Chamber, Council of Social Services, Consumers Association, Farmers Federation, Property Council, Council on the Ageing, Conservation Council and Local Government Association.

From 1 July SAIIR assumed secretariat responsibility for the Power Line Environment Committee which was established to advise the Minister about programs for the undergrounding of power lines under s. 58A of the Electricity Act.

Ports

The SA Government has introduced legislation into State Parliament for the sale of the Ports Corporation. Associated with the sale it is intended that SAIIR have a significant role in relation to ports regulation including:

- access for channels in major ports; and
- pricing controls to be applied to channel services and other areas.
-

South Australian Independent Pricing and Access Regulator (SAIPAR)

Gas

SAIPAR's draft decision on Envestra's proposed access arrangement for the SA natural gas distribution systems was released on 13 April 2000. SAIPAR indicated it would seek further public submissions until 18 May 2000. SAIPAR is analysing submissions on a wide range of issues in anticipation of further discussions with interested parties leading up to the release of the final decision. Some parties have been granted more time to make submissions.

The final decision should be released later this year.

Contact: Gina Reardon, Office of SAIPAR, 08 8226 5788.

ACT

IPARC changes

The ACT Independent Pricing and Regulatory Commission (IPARC) has been changing over the past four years. Originally established as the Electricity and Water Charges Commission by regulation under the *Electricity and Water Act 1996*, IPARC became as statutory authority in 1997.

The *Independent Pricing and Regulatory Commission Act 1997* (IPARC Act) carried forward the essential focus of the former agency, with its concentration on the determination of prices for regulated services in electricity, water and sewerage. However, the Act had broader powers in the determination of pricing and advice on arrangements in relation to access to infrastructure. The Act's powers cover all regulated industries, with a broader spread to possible industries that might be declared regulated.

While the original focus was specifically on the ACTEW monopoly in electricity and water, the IPARC Act allowed greater breadth in relation to any industry if it had monopoly characteristics.

The most recent changes occurred on 29 February 2000, when the amendments to the IPARC Act passed through the Legislative Assembly.

The amending legislation, the Independent Competition and Regulatory Commission Bill 1999, resulted from an Assembly motion recommending that the Government establish an independent agency to implement national competition policy. The Assembly wanted a community-based forum — the Competition Policy Forum — to oversight implementation in 1996, but it failed to make the contribution expected.

However, the Assembly motion provided an opportunity for IPARC to be repositioned to address issues on a far wider front. The Government responded at the end of 1998, outlining changes to IPARC that were eventually expressed in the above Bill. IPARC got sufficient powers to satisfy the oversight role the Assembly wanted.

Changes in title and structure

The amending legislation changed both the shape of IPARC and its name. The new regulatory body, the Independent Competition and Regulatory Commission (ICRC), has a new structure and a new set of responsibilities.

The new structure moves from a commission based on a single part time commissioner to one based on three standing commissioners (a senior commissioner and two assistant commissioners). The three commissioners in council govern the ICRC. The senior commissioner chairs the council. The head of secretariat is a non-voting member of the council. A permanent secretariat, currently limited to a head of secretariat and an executive assistant, provides support. A senior economic adviser is to be appointed. The permanent secretariat will remain small and focused on providing support to the commissioners and project management for references.

The ICRC can temporarily appoint any number of associate commissioners with specialist skills for specific investigations.

The ICRC works entirely from terms of reference received from referring authorities, a Minister, member of the Legislative Assembly or any other person. Generally speaking a person providing a terms of reference must fund the investigation. If they cannot, but the issue involves public benefit, the ICRC may either self reference or seek government assistance for funding.

The government guaranteed the independent council $400 000 annually to help ensure adequate funding for an ongoing service. In addition, the ICRC can charge for the investigation of references and, in some circumstances, undertake external work.

There is potential for a future role in consulting services on a broad range of regulatory issues, if the ICRC succeeds in gaining a reputation for quality advice on regulatory reform, competition policy and price and access matters.

Objectives and functions

The ICRC's objectives are to:

- promote effective competition in the interests of consumers;
- facilitate an appropriate balance between efficiency and environmental and social considerations;
- ensure non-discriminatory access to monopoly and near monopoly infrastructure.

The functions are to:

- provide price directions;
- make recommendations about price regulation;
- advise the Minister about proposed access agreements;
- maintain a register of access agreements;
- arbitrate disputes about access to services under access agreements;
- investigate and report on matters referred by the Minister and other referring authorities;
- investigate and report on competitive neutrality complaints;
- investigate and report on government regulated activities; as well as
- any function conferred by the Act or any other law of the Territory; and

- any function incidental to any of the functions mentioned above.

Ministerial intervention

The ICRC is independent to the extent that, except where provided by the Act or another law of the Territory, it is not subject to directions or the control of the Minister or any other referring authority in relation to an investigation, price direction, report, access agreement or arbitration.

Business rules

There are new rules for the issuing of references that relate to their tabling, tabling of changes, or their withdrawal. References are generally disallowable instruments. All reports are submitted to the Minister and tabled in the Legislative Assembly.

In addition to the broader scope of powers there is a regime requiring parties to an investigation to cooperate in the gathering of data. There are financial penalties, and/or imprisonment for non-compliance, including non-compliance with an ICRC direction. Similar penalties apply to interfering with, intimidating or coercing the ICRC.

Public disclosure

The requirements for public process and disclosure have not been weakened and the ICRC continues to investigate issues publicly. However, there is a provision for holding documents confidential and exercising it is at the discretion of the ICRC, where it constitutes a public benefit. Generally the Act provides that confidentiality must be sought — which is a reversal of the onus in the Freedom of Information Act. Cabinet documents are not subject to the disclosure provisions.

In the interests of public disclosure and accessibility the ICRC now has its own website, <www.icrc.act.au>.

Prospective changes

The Government has agreed to a suite of legislation being prepared that will affect the licensing and regulation of ACT utilities. The Utilities Bills are currently before the Legislative Assembly and should be debated in the Spring sittings. They provide a new framework for the regulation of utilities under a set of codes of practice subject to the issue and maintenance of an operating licence. The ICRC is to be the licensing and regulatory body. Technical standards are to be administered separately, as is the emergency service review function that provides a safety net for those unable to meet their obligations to suppliers. The Bills cover electricity, water and gas services.

Passage of the Bills later in the year will mean additional staffing resources for the ICRC, together with future revenue linked to the cost of licences. No amendments to the existing ICRC Act are required as it was drawn up with the Bills in mind. These matters will be resolved by the end of December, with a possible early start up of licenses from 1 January 2001.

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New South Wales

Independent Pricing and Regulatory Tribunal (IPART)

A New Tax System

An explicit adjustment was set for each utility on 1 July 2000 to allow for the effect of the New Tax System: as it will result in a predictable and substantial change to the cost of service; it is beyond the control of each utility; and the change in costs for each utility will be substantially different from the economy-wide impact reflected in the CPI.

The economy-wide impact of the package will be excluded from subsequent price indexation.

IPART will not formally announce the adjustment but has asked utilities to clearly and separately disclose those price changes resulting from the New Tax System and those that change for other reasons, i.e. as a result of reviews or scheduled CPI-X adjustments.

Electricity

In July 2000 the NSW Premier sent a terms of reference to IPART seeking assistance in setting franchise and default retail tariffs through until 2004. This timeframe extends beyond the introduction of full retail contestability, with the market being further opened up to competition from 1 January 2001 and full retail competition being implemented from 1 January 2002. The terms of reference set out matters to be considered including:

- an allowance for electricity purchase costs based on an assessment of the long-run marginal cost of electricity generation;
- an allowance for purchases of 'green energy', consistent with retailer license obligations;
- energy losses as published by NEMMCO;

- network charges as determined by IPART and the ACCC and fees imposed by NEMMCO;
- an appropriate retail gross margin;
- recovery of some or all of retail under-recovery balances remaining at 31 December 2000; and
- an allowance for annual indexation based on the CPI and expected movements in regulated components and NEMMCO fees.

IPART will also consider regulating miscellaneous charges. A public consultation process will take place during September and the review and report will be finalised by 30 October 2000.

Following the release of network and retail determinations in December 1999, IPART is also looking at pricing principles, compliance activity, and ringfencing, accounting separation and transfer pricing.

IPART issued a discussion paper on ringfencing on 5 September. The paper includes draft ringfencing guidelines and calls for public submissions. In the second half of 2000 IPART will review accounting separation and transfer pricing.

In 1999 IPART established its pricing principles working group with members drawn from the various stakeholders including the ACCC. (Minutes and papers are available from IPART's website.) The group is developing a set of pricing principles that will replace part E of chapter 6 of the National Electricity Code in New South Wales. Some of the group's early recommendations were implemented in IPART's 1999 distribution network determination, including requirements that information disclosure, notification requirements and timing for price changes. The first pricing booklets have been submitted and copies can be obtained from distributors or through links from the IPART website.

Gas

AGL Gas Network in NSW

IPART released its final decision on the proposed revisions to the access arrangement for AGL Gas Networks Limited (AGLGN) on 21 July 2000. The final decision required AGLGN to submit a revised arrangement by 31 August 2000. Following application from AGLGN this was extended to 7 September.

If AGLGN complies with the final decision, a final approval will be issued in mid September with a commencement date on which the revisions come into effect on 1 October 2000.

Approval of associate contract

In August IPART received a number of variations to an associate contract between AGL Gas Network Limited and AGL Energy Sales and Marketing Limited. IPART considered and approved the associate contracts in regard to the Sithe Delivery Point and a temporary variation in MDQ bookings over the Olympic period.

Tariff review — AGL

Public submissions on the draft report closed on 5 July 2000. Key issues for consideration in the final determination include:

- the form of regulation in the lead up to effective competition;
- cost implications of retail contestability;
- reporting requirements; and
- whether miscellaneous charges should be regulated.

IPART will release its final decision in the final quarter in 2000.

Transport

Passenger transport

In June IPART released its determinations of annual transport fares for CityRail and the State Transit Authority: passenger fares will increase by between 8–8.6 per cent in 2000–01. This includes 10 per cent GST minus the net savings in operating costs that will result from the New Tax System.

For Sydney Buses, Sydney Ferries and Newcastle services, the increase also includes an inflation adjustment of 1.9 per cent. The Sydney Ferries increase also includes a further 5.2 per cent adjustment to improve its level of cost recovery. For CityRail, IPART decided that no increase on top of the GST was justified, because service standards have declined and the State Rail Authority (SRA) has not introduced a passenger charter as agreed at the last determination.

In line with the ACCC's GST pricing guidelines, the increase for any individual fare is capped at 10 per cent, causing many fares to be rounded down. This results in average fare increases that are lower than the sum of their components.

Water

Urban water

In September 2000 IPART made determinations for medium term price paths for Sydney Water Corporation and Sydney Catchment Authority. Sydney Water's price path is for three years, while the Catchment Authority has a five year price path. The price paths take effect from 1 October 2000.

For Sydney Water there will be a real increase in the average bill in 2000–01. A small real decrease in water charges will be offset by an approximate 5 per cent real increase in sewerage charges. Capital expenditure to meet increased standards affecting the sewerage business is driving this increase.

For the Catchment Authority, charges to Sydney Water have remained the same as last year. Over the remainder of the price path charges will be maintained in real terms. IPART will conduct a mid-term review in 2002–03.

As part of its investigation into water and sewerage charges, IPART has been considering developer charges levied by the water agencies. IPART has continued with a net present value approach to calculating developer charges. The new determination requires that water agencies publicly exhibit their development plans before registering them with IPART. A major change in the determination is the application of a holding charge for assets constructed before 1996 only from 1996 not the date of commissioning.

Bulk water

The Department of Land and Water Conservation has made a submission to IPART seeking a determination on bulk water services to apply throughout NSW from 1 July 2000 to 30 June 2001. A public hearing was held on 5 July 2000.

Contact: Tom Parry IPART
02 9290 8411

Tasmania

Electricity Regulator

The regulatory structure for Tasmania's electricity supply industry is largely modelled on the NEM institutional arrangements, with the Regulator having code administration and enforcement responsibilities as well as the responsibilities of a jurisdictional regulator for tariff customers, distribution and pricing.

The Tasmanian Electricity Code has institutional arrangements which support the Regulator through two panels: the Code Change Panel, and a Reliability and Network Planning Panel.

Pricing

The Regulator has approved increased tariffs to take into account the impact from the GST:

- electricity tariffs 9.559%
- supply fees 9.534%

The tariffs will be reviewed after 12 months to consider the actual impact and then adjusted accordingly.

The State Government in its current budget has provided relief from a 5 per cent surcharge for Healthcare card holders.

Transend Networks is developing its pricing principles for network access with a workshop expected in October for interested parties.

Reliability and network planning panel

The panel issued a consultation paper on Capacity reserve standards in June 2000. A determination of new standards is expected to be completed by the panel by October 2000.

The Regulator provided the panel with terms of reference for the development of a reporting framework to monitor and review power system reliability.

The market benefits test for application to network project proposals has been finalised with the publication of a Regulator guideline outlining the application of the 'regulatory test'. The Tasmanian Electricity Code has been amended to recognise the test.

Code change panel

The panel made recommendations for changes to, inter alia, give effect to the regulatory test for network projects, and to extend the scope of responsibilities of the Reliability and Network Planning Panel to consider connection assets.

Customer consultative committee

The Committee's term expired in July 2000. There is widespread support for it continuing with an expanded membership and work program.

Industry structure and reform

The Government has established a major project team in the Department of Treasury and Finance to progress Tasmania's entry to the NEM. This is based on the Basslink interconnector being due for commissioning in late 2002 and natural gas project being developed by Duke Energy International. The joint assessment panel for the Basslink project representing the Commonwealth, Victoria and Tasmania has issued draft terms of reference for approval.

Government Prices Oversight Commission (GPOC)

Metro pricing policies

GPOC completed its investigation into the ticket pricing policies of Metro Tasmania Pty Ltd and submitted its final report on 2 June. Metro has to deliver contracted bus services in return for payments that compensate Metro for the short fall between fare-box revenues and the costs of providing the services.

GPOC noted that Metro is facing two major issues.

First, patronage has averaged a 3 per cent per annum decline over the past 13 years. In particular, since 1995–96 adult patronage has declined by 9 per cent and child/student travel by more than 5 per cent a year.

Second is the potential loss of Metro's exclusive right to provide the current scheduled services. Under the yet-to-be-proclaimed new transport legislation, Metro's route services may be put to tender.

GPOC determined the maximum prices that Metro may charge by assessing the total costs including a commercial profit which could be expected if the services were provided by an efficient operator. In assessing Metro's efficient costs, GPOC took account of a recent

benchmarking study of comparative costs and efficiencies of public and private sector urban bus operators in Australia. Based on the study and its own assessment, GPOC concluded that an efficient operator may deliver Metro services at 88 per cent of Metro's budgeted costs. The gap was mainly in drivers' wages and productivity.

In summary GPOC suggested there may be a case to increase adult and concession fares, but not student fares. GPOC restated its view that Metro and Government need to address the effectiveness of Metro's services, given the continuing decline in patronage.

MAIB pricing policies

GPOC has completed its second investigation into the pricing policies of the Motor Accidents Insurance Board (MAIB). The legislation requires GPOC to investigate MAIB's pricing policies every three years and to recommend maximum prices. The MAIB scheme provides both common law and no-fault benefits and is one of the lowest cost schemes in Australia.

As part of the investigation GPOC produced a draft report in early July for public input. Issues raised included: MAIB's solvency; insurance risk and risk margin; off-road and recreational vehicles' accident history; and the introduction of periodic registrations.

On 31 August 2000 GPOC submitted a final report to the relevant Ministers and MAIB with recommendations of maximum prices.

Competitive neutrality complaints

A complaint was lodged in January 2000 against the Department of Education (DoE) for alleged breaches of the competitive neutrality principles (NCP). The complaint concerned the leasing out of a student hostel (the Villas) by DoE to the Newstead College Council.

The complainants, operators of a student lodge in Launceston, alleged that the rent for the Villas lease was below a commercial rate, hence DoE was in effect subsidising their operation and so breaching the NCP.

GPOC found DoE had breached the NCP and recommended to the Minister of Education that the department be directed to review its leasing arrangements for the Villas and other similar student hostels. In response to GPOC's investigation the Minister directed the department to review its leasing arrangements for hostels to ensure compliance with NCP.

Fuel price monitoring

GPOC has been monitoring Tasmanian wholesale and retail petrol prices since August 1999 in an effort to address community concerns about the higher petrol prices paid by Tasmanians relative to mainland motorists.

At the Treasurer's request GPOC broadened the scope of the monthly pricing report in April 2000 to cover average retail prices for diesel and LPG (Autogas) in Tasmania. The new monitoring regime tracks the monthly average retail price movement of diesel and LPG in Hobart, Launceston, and north west Tasmania, using Melbourne as a reference point.

Commonwealth Bank of Australia monitoring

In March 2000 the Commonwealth Bank of Australia (CBA) and Colonial Limited (Colonial) announced their intention to merge. The Tasmanian Government and ACCC, among others, expressed concerns that the proposed merger might have a detrimental impact on retail banking services throughout the State. To address these concerns CBA, with Tasmanian Government approval, gave an undertaking to ACCC that Tasmanian customers will receive the same prices, new product innovations and services standards as other Australian customers. The same undertaking was given in relation to NSW, a region identified by ACCC as one that might also be adversely affected by the merger.

As part of the undertaking CBA agreed to appoint independent monitors for Tasmania and NSW to ensure CBA complies with the undertaking. The monitors are to report to the ACCC six-monthly. The Tasmanian Government has nominated GPOC to monitor that State. To assist the monitors, CBA agreed to appoint an independent reporter in accordance with the compliance reporting guideline developed by GPOC. The reporter should provide the monitors with its first report by 30 November 2000.

Contact Andrew Reeves, GPOC
03 6233 5665

Queensland

Queensland Competition Authority (QCA)

Rail

The QCA is close to completing its assessment of Queensland Rail's (QR's) draft undertaking covering services relating to the use of QR's rail transportation infrastructure.

The QCA will shortly publish a draft decision outlining its position, and QR and stakeholders will have an opportunity to comment before the final decision is released.

Copies of all papers released by the QCA as well as public submissions received are available from QCA's website.

Contacts: Euan Morton
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07 3222 0526

Water

Amendments to the *Queensland Competition Authority Act 1997* (QCA Act) expand QCA's responsibilities in the water sector.

- To monitor and report on the pricing practices of certain 'declared' monopoly or near monopoly State or local government significant business activities. For these businesses the QCA's prices oversight responsibilities are recommendatory only.
- To oversight the pricing practices of private sector water suppliers (including the South East Queensland Water Corporation Limited) which exert market power. For these businesses the QCA has deterministic price setting powers, and may exercise these powers either pursuant to a Ministerial reference or in response to a water supply dispute. The QCA may also mediate such disputes.
- To consider the application of third party access provisions of the QCA Act to all public and private sector water facilities, including local government water facilities.
- To consider the manner in which the principle of competitive neutrality is being applied to local government water businesses and to business activities of SunWater (previously the State Water Projects entity of the Department of Natural Resources).

Local government

In addition to QCA's responsibilities as they relate to the water businesses of local government, it is responsible for assessing local government's progress in implementing competition reforms. The QCA is currently initiating its third annual review.

Competitive neutrality

Recent amendments to the QCA Act mean that the QCA can only investigate alleged competitive advantage breaches in a particular market if the agency's activities are not subject to one or more of the following:

- full Commonwealth or State taxes or tax equivalent systems;
- debt guarantee fees directed towards offsetting the competitive advantage of government guarantees;
- procedural or regulatory requirements of the Commonwealth, the State or local government on conditions to which a competitor or potential competitor may be subject including, for example, requirements about the protection of the environment and about planning and approval processes.

The QCA must be specifically directed by the Premier and the Treasurer before it can investigate other matters which may affect competition between a government business entity and a private business.

The QCA continues to be responsible for investigating local government's significant urban water business activities which are subject to the *Local Government Act 1993*, and to ensure that public sector businesses are not competitively advantaged or disadvantaged because of their government ownership or control.

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Contributing to Network

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	Office of the Tasmanian Electricity Regulator	Mr Andrew Reeves	(03) 6233 6323
	Internet address	http://www.electricityregulator.tas.gov.au	
QLD	Queensland Competition Authority (QCA)	Mr John Hall	(07) 3222 0500
	Internet address	http://www.qca.org.au	
WA	Office for the Gas Access Regulator (*Off*GAR)	Dr Ken Michael	(08) 9213 1900
	Internet address	http://www.offgar.wa.gov.au	
	Office of Water Regulation	Dr Brian Martin	(08) 9213 0100
	Internet address	http://www.wrc.wa.gov.au/owr	
SA	South Australian Independent Pricing and Access Regulator (SAIPAR)	Mr Graham Scott	(08) 8226 5788
	Internet address	http://www.saipar.sa.gov.au	
	South Australian Independent Industry Regulator (SAIIR)	Mr Lew Owens	(08) 8463 4450
	Internet address	http://www.saiir.gov.au	
ACT	Independent Pricing and Regulatory Commission (IPARC)	Mr Paul Baxter	(02) 6273 0655
	Internet address	http://www.competition.act.gov.au	
NT	Utilities Commission	Mr Alan Tregilgas	(08) 8999 5480
	Internet address	http://www.utilicom.nt.gov.au	

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