

→ *John Towers*

Mr James Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Mr Cox

Re: Application by Integral Energy for Waiver of Clause 5.4.1 of the Distribution Ring Fencing Guidelines (Ref: 03/462)

I refer to the recent application by Integral Energy for the waiver described above which is shown on the IPART web site. The Department of Energy, Utilities and Sustainability offers the following comments.

The Department generally supports the approach of the letter, and sees merit in Integral Energy allocating their resources to their main task of delivering improved reliability and capability of their network. We also support the aim of keeping costs as low as possible for customers. However, we also believe that appropriate arrangements should be put in place giving external organisations a clear indication that the waiver will not produce un-wanted outcomes such as reduced competition.

When deciding to act as 'supplier of last resort' Integral Energy should be required to obtain from the customer a statutory declaration that they have approached at least three Accredited Service Providers operating in the Integral Energy area and been unable to obtain either a quote or commitment to undertake the required work. A statement that the price is excessive should not be considered sufficient justification as high prices are a normal part of the competition process in providing an incentive for new entrants to enter the contestable works market.

Where Integral Energy staff carry out contestable work, the following procedural processes would assist in ensuring competitive neutrality is achieved.

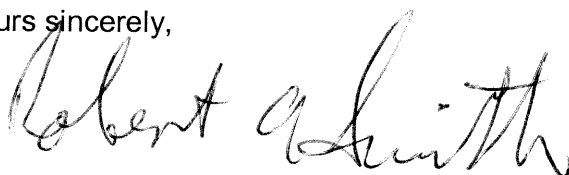
- Job costing should be done so that costs are apportioned in an equivalent way to that which would apply to an external accredited service provider. For example, travel to site should be allocated to the contestable work job, not to the switching part of the work;
- Work should be inspected by a separate inspector. The inspection could be carried out at a later time, but the inspection should not be left solely to the gang performing the work;
- Supply of materials and hire out of plant should be at rates which would apply if they were being supplied to an external accredited service provider.

- The annual Electricity Network Performance Report should include the number and circumstances involved in any 'last resort' projects; and
- Any other procedures and practices that may be identified which would provide results equivalent to the ring fencing guidelines.

The Department therefore generally supports the application for a waiver of Clause 5.4.1 of the IPART Ring Fencing Guidelines under the circumstances outlined by Integral Energy, but suggests that the above additional requirements would strengthen and appropriately limit the scope of the waiver. This would be in keeping with the requirement of this Clause to provide 'other measures' in lieu of the ring fencing requirements. Other more substantial measures would not be warranted for the likely small number of projects that will be involved.

Thank you for the opportunity to provide input on this issue.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robert Smith". The signature is written in a cursive, flowing style.

Robert Smith
Manager Contestable Works (Acting)