



Australian INLAND ENERGY

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Professor T Parry
Independent Regulatory and Pricing Tribunal
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Dear Professor Parry

CAPITAL CONTRIBUTION DETERMINATION

Thank you for the opportunity to respond to the IPART Discussion Paper DP-38 on Pricing of Capital Contributions to Electricity Networks, and to attend the round-table discussion on 9 May.

Following the round-table discussion, AIE has received verbal advice from the Secretariat that the Tribunal will not be changing Determination 99-1 to reflect any significant changes in the capital contribution determination, primarily in accordance with Clause 6.10.5(e) of the Code.

Australian Inland Energy re-iterates the points made in our submission regarding the likely significant impact on available capital funding as a result of introduction of economic distributor contribution payments for customer funded works.

Most of the economic capital contribution works undertaken by AIE involve upgrading of existing customer supply capacity, where single or multiple substations exist on an individual property, with the customer already benefiting from sub-transmission infrastructure provided at no direct cost. The CCWG recommendations were primarily addressed at new customer connections, where it was argued that an economic contribution should be paid as a surrogate for existing customers receipt of upstream infrastructure at no cost.

The capital contribution issue is the timing of the payment, either initial or recovered over time through tariffs, and who by, a specific customer requesting works or all of the customers in a particular tariff class. In the end customers will pay, either by direct payment or through tariff recovery.

The round-table discussion highlighted that differences existed between urban and rural customers, and between regions, regarding capital contributions, necessitating different policies to provide equitable outcomes for customers, distributors and ultimately the shareholders.

Therefore, AIE would prefer that a "menu basket" was available to distributors in relation to capital contribution policies, with Option 3 from DP-38 being one option on the menu. This is consistent with our indication at the round-table discussion of the preference for Option 3.

Apart from Option 3 requiring customers to contribute to shared assets, and re-introduction of a reimbursement scheme, provision for contribution towards upstream augmentation should be allowed, rather than satisfying the three points in the current capital contribution determination.

AIE expects that the minor variation to Determination 10 made in Determination 5.4, 1997 for the existing minimum connection cost arrangements for the Far West Electrification Scheme (FWES) will continue until 30 June 2005 in the forthcoming determination.

Finally, the future regulation of capital contributions requires clarification, particularly in relation to clauses 6.15.2, 6.10.2(j) and 6.10.3(c) of the Code. The derogation in 9.16.3(c) of the Code expires on 30 June 2002 in accordance with clause 9.16.3(f), exempting IPART from application of clauses 6.11 to 6.16 of the Code.

IPART noted this in Section 11.2 of Determination 99-1, but stated that it should have some regard to the Code provisions in clause 6.15.2.

Provided alternative pricing methodologies developed under clause 6.10.1(f) are developed and implemented prior to 30 June 2002, AIE understands that IPART will not be bound by the pricing methodologies in Part E of Chapter 6.

The question is whether clause 6.15.2 on capital contributions, pre-payments and financial guarantees is strictly covered under the classification of pricing principles; whether this clause will be in effect at the expiration of the derogation; and whether the effect of this clause is more onerous than the existing capital contribution determination.

Please contact Mr Adrian Ray on telephone (08) 8080 2425 should you have any queries on this submission, or require further information on this contentious topic.

Yours faithfully,



E T NORRIS
CHIEF EXECUTIVE OFFICER