

Capital Contributions Policy Review
Independent Regulatory and Pricing Tribunal
P.O. Box Q290
QVB Post Office
Sydney NSW 2000
(Attn. **Colin** Reid, Director, *Secretariat*)

1 May 2000

Reference Pricing of Capital Contributions to Electricity Networks.

Dear Mr Reid,

As Chairman of **NorthPower** Customer Consultative Committee (**NCCC**), I submit on behalf of my Committee, comments for consideration by the Independent Regulatory and Pricing Tribunal on matters specifically related to :-

1. **IPART Discussion Paper** and
2. **EKG Guidelinea for Implementing the Recommendations of the Capital Contributions Working Group (Final Report)** dated December 1999.

The NCCC is a Committee, duly appointed under **s86** (Division4) of the **Electricity Supply Act 1995**. It is a non-parochial group assembled on the basis of representing people by customer group rather than geographic or political alignment. Membership is drawn **from** diverse backgrounds and areas **of** interest, We do have a common concern to ensure that **NorthPower** customers are **afforded a secure** and safe Distribution network, **with** effective and **efficient** management of assets, leading to affordable tariffs to all levels of **customers** and to promote opportunities for existing and **future** commercial establishments.

Firstly, my Committee applauds what are obviously very thoroughly researched and **considered** papers. The breadth of membership of the various committees is generous **and** the fact that there appears to universal agreement with the recommendations contained within the CCWG Submission to the EICG, indicates total Industry 'Network Provider' support.

For many years prior to the Electricity Industry reform of 1995, the majority of Electricity Distributors had Capital Contribution Policies that were considered to be equitable to customers in their respective Distribution areas and it is rather disappointing to note **that** the 'Current Guidelines' **IPART** Determination 10 of 1996, have floundered on the basis that "both distributors and customers report **difficulties** in interpreting and applying **current** guidelines, particularly with respect to the definition of a connection point, the distinction between shared and dedicated lines, and the assessment of alternatives to connection which **involve** a degree of subjectivity." This is undoubtedly the price that the community pays **for** Government supported rationalisation initiatives, with questionable regard to outcomes.

Fortunately, we are now presented with the opportunity (albeit once again, within a limited timeframe), to consider reports incorporating a considerable amount of research (undertaken **by** Industry Experts) with tangible examples of likely outcomes and uniformly agreed recommendations, Accordingly the following dot-point comments and or **issues are** raised for consideration by the Tribunal, prior to the issue of the new determination on **capital** contributions, which will come into effect 1 July 2000:-

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- ❖ Generally the key issues appear to describe support for a **nationalised industry with** cross subsidy for equity, economic **development/regionalisation** and **community service social** obligations, rather than a basis to develop policy/strategy for change. **However** given the **directional change by State governments, the Working Group Proposal (Option 2) in supported by the NCCC.**
- ❖ Both the **IPART** Discussion Paper and the CCWG Submission to the **EICG appear to** interpose tariff and network charges and this tends to **confuse** the **situation**, as **most** references should relate to network charges, given the fact that the **Distributor** for a franchise area may not be the retailer for all customers in the Distribution Area.
- ❖ 4.1 Distribution Contribution (revenue offset). .. The “Dominant Load” test. The **NCCC** agrees with this approach, although the parameters/limits are ‘subjective’. Perhaps they could be subject to review **after** experience (say) **3 to 5** years.
- ❖ 4.3 Reimbursements.. This is considered a reasonable approach. However it is silent **upon** the situation when the **original** customer/s are no longer present. **Refunds** should not be retained by the Distributor or State government (consolidated **revenue**), but rather, a fund of such **refund** monies should be administered by an “arms-length” body towards another aspect of electricity supply – perhaps “community service **obligations**” – within the defined Distributors franchise area.
- ❖ 5.1 Price Signals.. . The Discussion Paper appears to be based upon the premise that once an extension is completed and the customer connected, they will consume energy at the nominated rate. This may not be the case: the customer may consume **more/less** or **cease**. Therefore whilst the contribution would cover provision of the asset (even though it may not be used efficiently) there **could well** be an impact on the network charging that will have to be met by other customers.
- ❖ 6.1 Options.. . **Option 2 is preferred by the NCCC.. All options** (within **the** context of the **IPART** Discussion Paper) are silent in respect of the possibility of other influences, ie. contributions by other bodies, economic development departments of State and Federal Governments, considering economic developments, regionalisation, **political** philosophies **and/or** “community service obligations”,
- ❖ p12.. states ‘ If the Tribunal decides to adopt a menu approach, the **models** described above are not **necessarily** the options that will be available to distributors”. **The** weakness with this **approach is that** there may be significantly different network charges for distributors (or even a variation within a distributors **franchise** area) and there is not a ‘choice option’ for customers as there is/will be with retailers, ******
- ❖ As noted earlier in this submission, “ ---- and **the fact** that there **appears to be universal** agreement with the recommendations contained within the CCWG Submission to the **EICG**, indicates total Industry ‘Network provider’ support.” This is particularly noteworthy as there is widespread variance in the ‘Estimated Impact on Capital Expenditure and Customer Contributions under the Proposed Framework’ (refer Table A2. 1.2 **pl6 of IPART** Discussion Paper), in respect of each Distributor. (cont.). ...

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My Committee proposed to raise this matter with NorthPower and we consider it appropriate that each CCC should perhaps do likewise with their respective Distributor. (This may assist the CCC's in having a better understanding of this *Universal Agreement v's Financial Impact conundrum*.)

- ** Is there a possibility of a Retailer offering for a particular customer, to pay a Distributor for a capital contribution for that customer, as part of a marketing exercise to 'win' the business of that customer? Preventative measures should be incorporated to ensure that this example and similar opportunities do not eventuate!!

"Consultation and Preparedness"

Within the context of both the IPART Discussion Paper and the CCWG Submission to the EICG, the need for 'expert' Customer Consultation in preparation for the major changes proposed within the documents, is dominant. Accordingly the following comments are made on this particular aspect: -

- ❖ The implications of the proposals indicate that further major changes in the provision of Electricity supply are 'on the way'. There is a real need to market these changes in a customer friendly manner. A truly professional marketing campaign, must be initiated, with the most positive aspects of the changes being to the fore. On this score, the reimbursement scheme for shared connections appears eminently equitable and on the question of timing of implementation, this is the first aspect which should be introduced, as it has considerable value in the area of customer relations.
- ❖ The costs and restrictions imposed by augmentation could become a major component of any development and thus increase the need for greater consultation. The Electricity Distributors need to be 'out there' in a very obvious way, promoting their message and the possibilities of shared costs and independent arbitration. It also implies that the Distributors will need to exhibit business skills and be in a position to offer expert business advice.
- ❖ The establishment of an Agency (recommendation of the CCWG Submission to the EICG) is supported, in order to provide an independent opportunity for discussing with potential customers the details, costs, economic soundness, etc. of a new and/or augmented connection. This proposal, if implemented, will go a long way towards open and reasonable negotiation with the Electricity Distribution Industry. The need for full awareness of all conditions is obvious. Should an appointed Agency approve an 'uneconomical connection' it begs the question of a need for independent arbitration. Should the Agency recommend or see the opportunity for cross-funding, it must be able to assist the customer through that maze also.
- ❖ Detailed delineation of the specific roles of the Agency, IPART and the Electricity Distributors should be clear and precise.

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- ❖ The specific **composition** of the **appointed Agency** is critical. The constitution of the membership **must** be based upon credibility, resourcefulness **and** an intrinsic understanding of the balances required for social, economic and environmental aspects at both a local and regional level and also to the State of **NSW** as a whole.
- ❖ The whole procedure of increased costs and lengthy negotiations elevates the need for Electricity Distributors to be in a position to **present** varied and more cost effective alternatives to the traditional **forms** of electricity supply. This is particularly so for rural businesses, often isolated, yet extremely important to the general and particularly the local economy. Greater research, innovative applications, more funding into **new** electric power sources are necessary to show not only that the Industry is trying to help, but that they are actually out there **trialing**, demonstrating and applying the research to improve the lot of the business community, and to **generate opportunities to improve** the general economy. Whilst not specifically **part** of the 'CCWG Submission and **IPART** Discussion Paper', my Committee believes that an awareness of the implications of these policies is crucial and needs to be promoted as **an** adjunct.
- ❖ Community consultation is a necessity today, Should the concept of **funding** assistance be introduced, (CCWG Recommendation **6**), **particularly the notion of increasing tariffs** across the community or applying explicit taxpayer funding, this should be an important consideration. There are numerous examples of community concerns over lack of consultation with regard to Electricity Supply Industry 'actions/initiatives'. .. and they **are** a timely reminder of the critical nature and importance of widespread community consultation.

I thank the Tribunal for the opportunity to make this submission, for and or behalf of the **NorthPower** Customer Consultative Committee. I look forward to being **able** to attend and participate in the 'round table' discussion at the Tribunal's **offices** on the morning of 9 May **2000**.

Yours sincerely



R.J. (Bob) Harper.
Chairman **NorthPower** CCC.