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Professor Tom Parry  
Chairman  
Independent Pricing and Regulatory Tribunal  
PO Box Q290 QVB Post Office  
Sydney NSW 1230

Dear Professor Parry,

Pricing of Capital Contributions to Electricity Networks

I refer to the recent discussion paper of April 2000 on the Pricing of Capital Contributions to Electricity Networks.

The Department of State and Regional Development supports activities which promote the development of the State and its regions, and enhance the efficiency of the State's infrastructure. Accordingly, the Department would welcome efforts to move from a system which contains the possibility of counter-productive "game playing" behaviour to one which is not encouraged by the regulatory framework of the electricity distribution industry.

I note that the proposals outlined in the discussion paper involve major and significant changes to the charging of capital extensions within the electricity distribution network. To ensure thorough evaluation of these proposals, it is considered that further work needs to be undertaken by IPART to resolve several issues involving the Government's development policy objectives, especially in relation to regional NSW.

In 1995, it was stated that "public interest and community groups expect the Tribunal to take into account the social impacts of prices and any changes to pricing structures." In that regard, the Government has broad social and economic objectives concerning the development of regional NSW. Case study examples provided in the discussion paper indicate that large and small rural



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customers may incur significantly more costs under the working group's proposal than under **present arrangements**. This appears to run counter to Government policy of encouraging **economic and social development** in regional New South Wales.

The economic **rationalist** approach taken in the discussion paper fails to **address some** key issues such as:

- the impact of such changes on regional economic growth and **lifestyle**;
- alternative systems for amortising such changes; and
- **methods** used for calculating customer costs in a regional **environment**.

To evaluate **the** proposals against the Government's **development** policy objectives particularly relating to regional NSW, further work needs to be conducted on **the** proposals to quantify **the**:

- costs and benefits to the State;
- costs and benefits to rural NSW - in particular who will **be disadvantaged** and to what extent; and
- **incidence** and costs of regulatory game-playing **behaviour**.

In addition, attendant proposals need to be formulated and costed for compensating **those adversely** affected by **the** proposed changes. As a result, there may be a need to **formulate and cost alternative** approaches to fulfilling the Government's policy **objectives** in **regional** NSW.

With **more** information it may be found that the appropriate approach is to address the rural **issues** on a regional rather than on a Statewide basis.

The analysis might also **benefit from** some comparative cross-industry **insights**. For **example** what are **the** lessons to be drawn **from** the experience of other natural **monopolies** such as the **gas**, telecommunications and water industries in charging customers for the **capital** costs **incurred** in **expanding their** distribution systems?

For the **reasons** outlined above, I propose that consideration **of the** changes **being canvassed** is **deferred** and the **current** system maintained **pending** further **investigation**.

Yours sincerely,

per Loftus Harris  
Director General