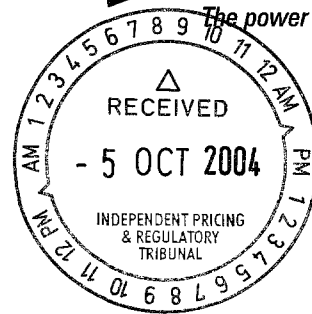




Mr James Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
QVB Post Office NSW 1230



28 September 2004

Dear Mr Cox

Distribution Ring Fencing Guidelines Waiver Application

Integral Energy (Integral) has made the decision that, at this point in time, it will not actively participate in the provision of contestable services and will focus its resources on delivering the improved reliability and other outcomes arising from the recent IPART determination on NSW electricity distribution pricing.

However, whilst not actively participating in the provision of contestable services, Integral will at times have to act as a supplier of last resort to some customers in the contestable market. This will particularly be the case in the more remote parts of Integral's area. These areas are serviced from Integral's depots at Bowenfels, Bowral and Nowra.

In acting as a supplier of last resort Integral will be using staff that would normally be employed delivering Integral's own capital and operating expenditures. Reviewing IPART's Distribution Ring Fencing Guidelines (the Guidelines) it has been identified that Integral could be in breach of the Guidelines and in particular Clause 5.4.1 with respect to staff separation in the provision of network access and substation commissioning services.

Network Access Permit Services

Network access permit services are provided to both Accredited Service Providers (ASPs) and Integral staff and where relevant the appropriate Monopoly fee is charged for the provision of this service.

For high voltage access across the majority of Integral's distribution area District Operators (DOs) will undertake the provision of the access permit to either the ASP or Integral staff. DOs are part of the Engineering Performance business unit and hence are separate from the staff who provide contestable services and Integral would comply with the requirements of Clause 5.4.1 of the Guidelines.

However, in the outerlying areas serviced by staff at Integral's Bowenfels, Bowral and Nowra depots the access permits are issued by authorised field staff. The authorised field staff are part of the Asset Management business unit that would provide contestable services as a supplier of last resort. The use of authorised field staff obviates the need for DOs in these areas as generally the work load is insufficient to provide for a DO. If Integral were to send a DO to perform this task it would involve extensive travel and would adversely impact on the productivity of both the DO and the ASP. Integral is seeking the granting of a waiver for the Asset Management staff in these situations where they act as a supplier of last resort and also as a provider of monopoly services.

For low voltage access the provision of the access permit, or its low voltage equivalent, is undertaken by authorised field staff across the whole of the Integral distribution area. The authorised field staff are part of the Asset Management business unit that provides contestable services. If Integral were required to comply with Clause 5.4.1 of the Guidelines, this would draw resources away from the Asset Management business unit and severely impact on Integral's ability to meet its commitments with respect to the recent network Determination. Given that Integral is not actively participating in the contestable service market a waiver is sort for the Asset Management staff who provide the low voltage access across the whole of the Integral distribution area but who may, at times, provide contestable services as a supplier of last resort.

Substation Commissioning Services

The commissioning of a substation requires an authorised person to check and test the installation prior to commissioning and then to carry out the switching to energise the substation.

At Integral similar arrangements to those applying to high voltage network access permits apply. In the majority of Integral's distribution area DOs will undertake the commissioning of a substation for either the ASP or Integral staff and Integral would comply with the requirements of Clause 5.4.1 of the Guidelines.

However, in the outerlying areas serviced by staff at Integral's Bowenfels, Bowral and Nowra depots the commissioning of substations is conducted by authorised field staff. The authorised field staff are part of the Asset Management business unit that provides contestable services. Again, the use of authorised field staff obviates the need for DOs in these areas as generally the work load is insufficient to provide for a DO. If Integral were to send a DO to perform this task it would involve extensive travel and would adversely impact on the productivity of both the DO and the ASP. Integral is seeking the granting of a waiver for the Asset Management staff in the outer lying areas in situations where they act as a supplier of last resort and also as a provider of monopoly services.

The granting of a waiver in the situations outlined above will ensure the best possible outcomes for the customers and ASPs both in terms of Integral's ability to provide reasonable access to the network and in keeping Integral's costs at an efficient level.

Should you have any questions in relation to the application or any of the information provided please contact Mr Frank Nevill in our Regulatory and Pricing Group on telephone (02) 9853 6598.

Yours sincerely



Richard Powis
Chief Executive Officer