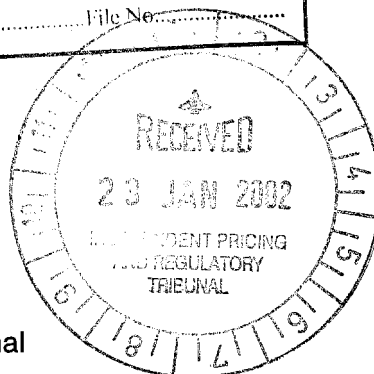


16 January 2002

IPART
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Mr Michael Seery
Electricity Pricing Program Leader
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
SYDNEY NSW 1230

Dear Mr Seery

IPART Capital Contributions Draft Report

Thank you for the opportunity to respond to The Tribunal's draft report on Capital Contributions for New South Wales Electricity Distribution Network Service Providers.

ENERGEX agrees with general outline of the capital contribution scheme proposed in The Tribunal's draft report, but considers that a number of issues of detail need to be clarified in relation to the operation of the reimbursement scheme.

These concerns are outlined in the attached submission.

If you have any questions or comments, please do not hesitate to contact me on (07) 3404 1825.

Yours sincerely

A handwritten signature in black ink, appearing to be "Trevor Lee".

 Trevor Lee
Group Manager Regulatory Affairs



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Capital contributions submission

Reimbursement scheme

In relation to the capital contributions by users for connection to a NSW distribution network, the Tribunal proposes a general rule with two exceptions.

The general rule is that users will pay the direct costs of the dedicated line from their premises to a defined point of the network, with costs beyond the defined point of the network to be the responsibility of the distribution network service provider.

The exceptions to this rule are that rural customers and customers requiring significant augmentation of the existing network may, in addition to paying the direct costs of connection, also be required to contribute to the costs of augmenting the network.

The Tribunal proposes to operate a reimbursement scheme in relation to users in these two exception categories. The reimbursement scheme enables these users to be reimbursed for some of the contributions they have paid for assets that, at some later stage, are used by other customers. Contributing users are eligible for reimbursement after they have sold their premises, but are responsible for notifying the distribution network service provider of their current contact details.

The Tribunal considers distribution network service providers should “meet any cost increases [from the reimbursement scheme] from within their existing revenue caps during the current regulatory period”, and “[a]t the next regulatory review, the Tribunal will consider the level of costs and the appropriate funding mechanisms” (draft report, p. 16). The Tribunal envisages treating the costs of administering the reimbursement scheme for the present as part of corporate overheads (draft report, p. 13).

ENERGEX does not accept that distribution network service providers should bear new costs arising between regulatory reviews, and bear the uncertainty regarding whether and the extent to which these costs will be recoverable in the longer term.

ENERGEX believes that the costs of administering the reimbursement scheme should be recoverable from the date of establishment of the scheme based on the accepted principle that distribution network service providers should be permitted to recover prudent operating expenditure.

Length of reimbursement scheme

The Tribunal has proposed the reimbursement scheme should operate for ten years. ENERGEX considers the reimbursement scheme should, in the interests of cost and administrative simplicity, last no longer than the previous reimbursement scheme period of six years. A six year period is more likely to strike the appropriate balance between cost minimisation and protecting the interests of an original contributor (including ensuring subsequent users do not delay connection to avoid paying a capital contribution). The cost of maintaining records for ten years, including appropriate indexation and accounting provision is significant. Moreover, complex administrative problems are more likely to arise over a ten year period and be more costly to resolve when they do arise. These problems include:

- tracking down original users with reimbursement payments long after they have sold relevant connected premises or ceased existence;

- settling disputes among claimants to reimbursement where, eg partnerships have dissolved or companies have restructured; and
- reimbursing original contributors and perhaps first subsequent users when third or fourth users connect to facilities funded by user contribution.