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Dr Tom Parry
Chairman
Independent Pricing And Regulatory
Tribunal of New South Wales
PO Box Q290
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Dear Dr Parry

Capital Contributions for NSW Electricity Distribution Network Service Providers

The Tribunal's proposed approach includes a general rule that will apply to most customers, and two exceptions to that rule:

- The general rule is that a customer will pay for the direct costs of establishing the connection up to a defined point of connection to the network. These direct costs are those involved in providing and installing the lines and equipment that are dedicated solely to that customer. The distribution network service provider (DNSP) will pay for all other costs. These other costs are those incurred beyond the customer's point of connection.
- Exceptions to this rule are
 - customers who are connecting to parts of the network that serve a low number of customers relative to the length of the power lines (i.e. customers in rural and remote areas).
 - customers who, in connecting, require significant augmentation of the existing network.

These customers will pay for the direct costs of establishing the connection up to a defined point of connection to the network. They may be required to contribute also to the costs of upgrading network assets.

- DNSPs will be required to establish a reimbursement scheme that will enable customers in these exception categories to be reimbursed for some of the contributions they have paid for assets that, at some later stage, are used by other customers.
- All customers and DNSPs will have access to an independent dispute resolution process to resolve any disputes concerning capital contributions."

I have prepared a draft reply, which is generally supportive, but I would like members to give me any specific comments on the draft or pose any specific issues/questions that need clarification or putting into our reply, especially on the issue of augmentation costs and definition of a large customer. I want to ensure that we protect existing members' interests. The proposed reply follows:-

"The Energy Markets Reform Forum (EMRF) generally supports the Tribunal's draft determination on capital contributions for the NSW electricity distribution network businesses. In particular, the principles guiding the determination of capital contributions and the addition of a reimbursement scheme in relation to assets paid for by large customers are strongly supported.

Principles Used For Capital Contributions

The EMRF agrees that there should be principles adopted to help in determining capital contributions and that they should be consistent with the principles used in the Tribunal's Pricing Principles and Methodologies approach viz:

- reflect economic costs;
- recovering allowed revenue in the least distortive manner; and
- promote equity, stability and consistency of outcomes having regard to the impact of price changes on customers, transparency, and based on published costs and methods.

Efficiency in pricing for network connection can also help in sending the appropriate price signals for the location of industrial activities in this State.

The General Rule

The EMRF agrees that, as a general rule, customers be required to pay a capital contribution equal to the direct costs of connection. However, it is important to ensure that these costs are efficient and based on competitive outcomes. For example, this general rule (as it relates to costs) should be linked to the Tribunal's other review of distributors' contestable works and opportunity given to Accredited Service Providers

(ASPs) (other than the distributors) to compete fairly for contestable works, such as connections. As the Tribunal is aware, ASPs, have complained about the unfair competition and discrimination they faced vis a vis distributors' service providers.

Dedicated Assets Later Used By Other Customers

The EMRF supports the proposal to reimburse large load customers at some time in the future as the network expands and additional customers are connected. The reimbursement scheme should be administered by the distributors and records kept. To ensure that reimbursements are activated, there should be some transparent trigger mechanism applied, so that large load customer do receive reimbursements and/or distributors do not 'double-dip'.

We consider the trigger mechanism should include criteria for when and how the reimbursements must be made. We consider that a minimum amount of \$10,000 and a reimbursement date (say, of 3 months) should be incorporated. Any slippage beyond 3 months must include a penalty.

Exceptions To The General Rule And Definition Of Large Customer

The EMRF supports the proposal to have exceptions to the general rule in regard to augmentation costs. We agree that it is both inequitable and economically inefficient to pass on to other (and existing) customers the cost of connections that will be substantially and persistently uneconomic.

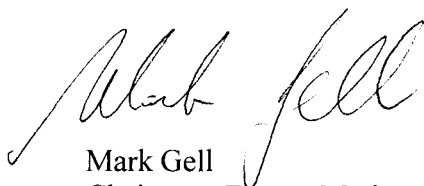
In other words, these customers should be required to pay some of the additional costs they impose on the network. Should distributors be directed under shareholder requirements to not require these customers to pay the augmentation costs, then the distributors must not be permitted to pass these costs on to other customers.

As to the definition of a large load customer, we believe that a customer whose expected demand for electricity is such that the customer would require more than 40 per cent of the capacity of the existing network to be augmented.

Dispute Resolution

We consider that timelines need to be established for the dispute resolution process.

Yours sincerely



Mark Gell
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