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2 May, 2000

Capital Contributions Policy Review
Independent Regulatory and Pricing Tribunal
PO Box Q290
QVB Post Office
Sydney NSW 2000

Dear Sir,
SUBMISSION REGARDING PRICING OF CAPITAL CONTRIBUTIONS TO ELECTRICITY
NETWORKS

My company carries out contestable electricity line design and general electrical consulting work. The company is also expanding into the provision of distributed power solutions for customers. Having read the Discussion Paper on the above matter, I wish to submit the following comments.

- In my observation, the main reasons the industry has had trouble implementing the current guidelines are poor definitions and IPART's inadequate commitment of resources to initial implementation and later auditing and enforcement of the Determination and associated guidelines. Despite the problems the guidelines are becoming better understood and business has generally adapted to them. To make wholesale changes again will simply reverse any progress made and uncover a whole lot of new problems. The proposed changes of the Capital Contributions Working Group appear to be a lot more complex and resource hungry in their application than the current guidelines.
- With regard to shared assets, the inability of a customer to recover some of the connection costs when assets become shared is unfair and does need to be addressed. This is also an area that has been the subject of gaming by distributors whereby the likely prospect of future customers sharing the asset appears to have been ignored in order to impose connection costs on a customer. I do not doubt that the policy is equally open to gaming from customers.
- The current guidelines do have facility for a distributor to recover all costs where a better economic and environmental alternative is available e.g. stand-alone power systems in rural areas. I believe this part of the policy has not been effectively utilised by distributors, particularly those with a significant number of isolated customers. This may be due to a need to "spell out" this option a little more in the guidelines. Some distributors may also need to update their knowledge of the available technology.
- The issue of distributors funding augmentation has been poorly audited and enforced by IPART. There are cases of customers paying more than they should to build lines with

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large conductors simply because the distributor wanted to avoid augmenting the system upstream. This type of situation represents a poor engineering outcome in which no-one really benefits. I firmly believe that distributors should continue funding all augmentation. To change to customer funding simply opens up a new area where a customer (who is at a disadvantage to the distributor in terms of technical knowledge) may end up being gamed to pay for more augmentation than is necessary. Also, distributors must realise that, as monopoly businesses with guaranteed incomes, they must take **all** of the “wires” business in their monopoly area. The “luxury” of being able to choose your customer should only be afforded those who have to compete for business. I also believe that distributors have not started to “think outside the square” yet with regard to system augmentation. Moving augmentation costs to customers is too easy and will not drive the innovation required to be a truly effective energy company in the future.

Having regard to the above points I conclude that Option 3 – Modification of Current Guidelines, is the best option. I believe the following items require attention in addition to those mentioned in the discussion paper:

- Better implementation and ongoing management of the new policy. Associated with this I believe there has long been a need to establish an independent body to look after electrical inspections etc. The management of this policy independent of distributors – who after all are now businesses with the prime goal of making money – is yet another reason to establish such a body. The body should be industry funded for audits and general policy management and charge fees for inspection work etc. The Electricity Association already has the basis of such an organisation formed to look after contractor accreditation and contestability issues.
- The option of remote area power systems and the distributors’ ability to impose them in cases of superior economic and environmental outcomes needs to be “fleshed out”.

I note the issue of contestability, specifically ring fencing within distributors, was not included in the Discussion Paper. I hope this issue is spelt out a bit more in any new policy.

Please contact me if you wish to discuss any of the above in more detail.

Yours faithfully,

Greg Harris
Director