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2 May 2000

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

Dear Dr Parry

Pricing of Capital Contributions to Electricity Networks - Discussion Paper

Thank you for the invitation to comment on the issues raised in Discussion Paper DP-38 of the above title and dated April 2000.

As I stated in my letter of 14 March 2000, Integral Energy is generally supportive of the Working Group's recommendations, which now forms Option 2 in the Discussion Paper. This support is, however, conditional on the fulfilment of Recommendation 8 of the Working Group's original report, namely that: "Connection assets funded by distributors should derive appropriate returns and associated operating cost recovery through regulated revenues".

In supporting Option 2, there are several areas that Integral believes require further consideration and clarification. Most notable is the fact the under Option 2, Integral would be required to spend an additional $15 million per annum. In establishing a workable commercial outcome, Integral believes the Tribunal needs to address the following issues in the final Determination:

- Under the current Option 2 proposal, no allowance has been made for this additional capital expenditure in the December 1999 Determination and Rules for Regulation of NSW Electricity Distribution Networks. Integral would not be prepared to fund this additional capital expenditure unless it could commence earning a return on its investment from the year in which the investment is made. This means that the base revenue determined in the December 1999 Determination would need to be increased to allow for the additional return.

- It should also be recognised that for Integral Energy Networks to increase revenue in the medium term it may be necessary to relax side constraints.

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The Tribunal should also be aware that Integral's budget for the 2000/01 year has already been set and internal sources of capital funding have been fully allocated. Integral is therefore not in a position to increase external debt, given that NSW Treasury is already increasing Integral's debt/equity structure. The earliest that Integral could begin the additional capital funding would be the financial year commencing 1 July 2001.

Integral also has concerns relating to the issue of transitioning from the existing Determination to a new Determination. These concerns are common to varying degrees to all of the options. If a proposed rebate scheme is introduced then serious consideration has to be given to the date of implementation of this scheme. Questions that need to be clarified in the Tribunal's Determination include:

- What benefits would be available to customers connected under the old determination where no rebate scheme existed?

- What would be the effect of delaying the implementation of any new capital contribution conditions after a final Determination is published? If the determination is made public in July 2000, major portions of the Determination having the effect of reducing new customer costs or introducing a refund scheme could not be delayed even a short time without creating customer dissatisfaction. Delaying implementation to 1 July 2001 would be totally unmanageable.

In the event that satisfactory arrangements cannot be implemented to modify Integral's capital budget and guarantee an appropriate and prompt return on the new investment, Integral's second preference would be for Option 3 of the discussion paper. This option would also require some further modifications to become a workable approach. If necessary, Integral is available to provide further information to the Tribunal on the modifications that we believe would be required.

For further information or clarification, please contact Frank Nevill in Integral's Regulatory & Pricing Group on (02) 9853 6598.

Yours faithfully,

R. Powis.

Richard Powis
Chief Executive Officer