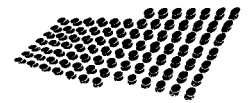


18 January 2002

Dr. Tom Parry,  
Chairman,  
Independent Pricing and Regulatory Tribunal of NSW  
Level 2, 44 Market Street  
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Paul A Broad  
Managing Director

Dear Dr. Parry,

**Capital Contributions for New South Wales Electricity Distribution Network Service Providers – Draft Report**

I refer to the "Capital Contributions for New South Wales Electricity Distribution Network Service Providers Draft Report" issued by the IPART Secretariat for comment by 16 January 2002. Thank you for the opportunity to comment on this paper. Please accept the attached submission as EnergyAustralia, Integral Energy, Country Energy and Australian Inland Energy and Water (the NSW DNSPs) views on the proposed approach for capital contributions.

The NSW DNSPs believe that the current arrangement is susceptible to misinterpretation and potential gaming; does not differentiate between urban and non-urban customer connections; does not provide a reimbursement scheme for customers to access; and has led to outcomes where the NSW DNSPs have been required to fund in many cases fully 'dedicated' customer connection assets in metropolitan areas and uneconomic network augmentations and shared network extension assets in parts of the network with low load to line length ratios. The capital cost of funding these assets by the NSW DNSPs places upward pressure on average network use of system prices.

The approach proposed by the Tribunal provides the basis of a framework and methodology that would allow for the appropriate resolution of some of these issues. There is merit in the Tribunal's proposed approach which recognises the differences between connections to urban/metropolitan based networks from those to rural distribution feeders and provides the NSW DNSPs with the ability through the application of defined exceptions to seek contributions towards network augmentation costs. The NSW DNSPs support in principle the application of the draft capital contribution policy in its present form in respect of the following matters:

- Customers to be responsible for the cost of the dedicated connection assets;
- NSW DNSPs to be responsible for all other costs up to or on the DNSP's side of the customer's point of connection. Excepting lower network density areas and large load customers from this general rule will send appropriate economic signals to ensure efficient development;

- The establishment of a reimbursement scheme in relation to customer funded assets for all rural customers or customers with large loads to provide equity between customers;
- Customers to have access to a dispute resolution process;
- Assets constructed should be of an economic optimum size;
- Customers with large loads to have the right to negotiate the form of their capital contribution for network augmentation;
- Customer to have the choice of engaging accredited contractors for the provision of dedicated connection assets or fully customer funded augmentation works; and
- Customer to have the right to assume ownership of dedicated contributed assets.

While generally supporting the proposed methodology, we urge the Tribunal to give consideration to the matters raised in the attached submission, which the NSW DNSPs believe require further refinement or amendment to ensure their effectiveness.

The NSW DNSPs believe that the reimbursement scheme as detailed in the submission is sound and practical and we would welcome the opportunity to work with the IPART Secretariat to further refine and enhance the proposed scheme. Accordingly, the NSW DNSPs would recommend that the Tribunal not make a binding determination with respect to the detail of the reimbursement scheme pending further discussion and evaluation of any alternatives or enhancements.

The draft capital contribution proposal has the potential to result in increased volatility in capital expenditure requirements for some NSW DNSPs particularly, if the DNSP is required to fund the high voltage assets to all multi-occupant developments. We strongly urge the Tribunal to provide clear assurance that capital expenditure funded by the NSW DNSPs for any new system investment required by the new determination, is recognised as prudent and is included in the regulatory asset base at the next price reset to ensure a return on/of capital invested. To do otherwise may lead to a disincentive for the NSW DNSP to provide investment funds.

The submission has been forwarded to you under separate cover and the DNSPs would be pleased to discuss further any of the matters raised with the Tribunal. If you have any queries you wish to raise with EnergyAustralia please do not hesitate to contact me on 9269 2611 or Tony Markus on 9269 4043.

Yours sincerely



**Acting Managing Director**