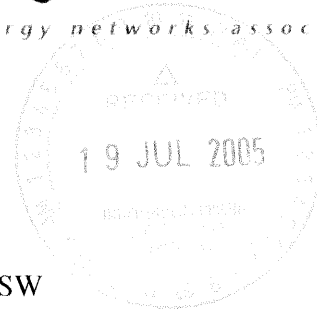


15 July 2005

Ms Fiona Towers
Director, Energy
URF Pricing Principles Discussion Paper
c/o Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
QVB Post Office NSW 1230



Dear Ms Towers

Utility Regulators Forum Discussion Paper – Pricing Principles

I am writing to you in response to the Discussion Paper *Review of Nationally Consistent Pricing Principles* released by the Utility Regulators Forum (URF) on 20 June 2005.

The Energy Networks Association (ENA) is the peak national body representing owners and operators of gas and electricity distribution networks valued at over \$35 billion. The development of national pricing principles for electricity distribution is a core area of concern to the energy network sector.

Energy network businesses consider that under the new energy market governance arrangements with the AEMC as the rule making and market development body, it is inappropriate for the URF to involve itself in the initiation of pricing policy developments. In addition, the development of the URF Discussion Paper and the associated consultation process has failed to take appropriate account of the range of policy development processes underway in relation to electricity distribution pricing.

Development of future nationally consistent pricing principles for energy distribution networks is an issue under active consideration in several policy development programs under the Ministerial Council on Energy (MCE). These include the MCE's development of an intergovernmental response to the Productivity Commission *Review of the Gas Access Regime* and development of an agreed national framework for electricity and gas distribution regulation.

Additionally, as the Discussion Paper notes, there is the potential for the scheduled AEMC review of Chapter 6 of the National Electricity Rules in relation to transmission pricing to explore pricing issues of relevance to distribution networks. The ENA has written to the MCE Standing Committee of Officials seeking clarification of the scope of the revenue and pricing review and whether it will, in fact, also cover distribution pricing issues.

Given the examination of potential pricing principles for electricity and gas distribution networks underway in the MCE and AEMC policy development processes, the ENA considers it inappropriate for the URF to be undertaking further work in this area.

The ENA's primary concern is that parallel development by State-based regulatory bodies of preferred electricity distribution pricing principles is fundamentally inconsistent with the clear implementation by Australian governments from 1 July 2005 of legal separation between energy market rule making and rule enforcement bodies and activities. As a consequence, energy distribution businesses do not consider it appropriate for this URF process to advance, and will not be responding further to the Discussion Paper.

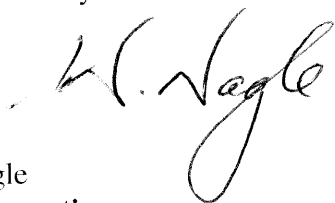
The ENA notes that a key finding of the Discussion Paper is that Australian energy regulators have failed since the implementation of the Electricity Code to develop nationally consistent pricing principles. This is despite the inappropriately wide discretion provided under the current Electricity Rules for regulatory authorities to establish alternative regulatory approaches and principles to those set out in Part E of the Rules. This failure to develop consistent pricing principles is ironically itself highlighted by the Discussion Paper as an area of 'commonality'.

Energy distribution network businesses consider that the best and most appropriate opportunity to achieve nationally consistent energy distribution pricing principles is through the current series of energy market reforms initiated by the MCE, not through an unconnected process of policy development by energy distribution regulators. These reforms should allow for the systematic addressing of the deficiencies of Part E of Chapter 6 of the National Electricity Rules. This will remove the need for the Rules to provide scope for a range of inconsistent jurisdictional-specific pricing principles and methodologies.

This view is reinforced by the exclusive focus of the Discussion Paper on lower level economic pricing principles which relate largely to the structure of individual prices faced by energy users, not the broader issue of ensuring prices recover a stream of revenue adequate to sustain a level of distribution services that meets community expectations. Recent electricity distribution regulatory decisions in New South Wales and Queensland - respectively restricting the recovery of efficient forward-looking costs, and deducting the value of past efficiency gains from future revenue - highlight that these are critical issues for future national pricing principles for energy networks.

If the Forum has any queries relating to this letter, or if you wish to discuss any aspect of ENA's views on these matters, please feel free to contact ENA's National Director - Government and Regulatory Affairs, Mr Garth Crawford on (02) 6272 1519.

Yours sincerely



Bill Nagle
Chief Executive
Energy Networks Association

cc: MCE Standing Committee of Officials Members