NETWORK

A publication of the Utility Regulators Forum

Issue 2, July 1999

Regulator in Profile

Professor Allan Fels

Professor Allan Fels was appointed inaugural chairman of the Australian Competition and Consumer Commission in November 1995 for five years. Appointments previous to that were Chairman of the Trade Practices Commission and Chairman of the Prices Surveillance Authority.

Professor Fels graduated in Law and Economics from the University of Western Australia. He completed a PhD in Economics in the US and then spent four years in the Department of Applied Economics, University of Cambridge where he wrote the *British Prices and Incomes Board*, Cambridge University Press, 1972.

On returning to Australia, Professor Fels pursued, for the next 15 years, a career combining academic endeavours and part time membership of a number of economic regulatory bodies. These included: the Prices Justification Tribunal, the Independent Air Fares Committee, AUSTEL, Victorian Prices Commissioner, Prices Surveillance Authority, the Victorian Shop Trading Hours Panel, and a number of industry specific regulatory and arbitral roles, especially in agricultural areas.

He is now an Honorary Professor in the Faculty of Economics and Business at Monash University.

The Australian Competition and Consumer Commission

The Australian Competition and Consumer Commission is an independent statutory authority which administers the *Trade Practices Act 1974* and the *Prices Surveillance Act 1983*, and has additional responsibilities under other legislation.

Under the national competition policy reform program the Trade Practices Act was amended so that, with State/Territory application legislation, its prohibitions of anti-competitive conduct apply to virtually all businesses in Australia. In broad terms, the Act covers anti-competitive and unfair market practices, mergers or acquisitions of companies, product safety/liability, and third party access to facilities of national significance.

The Commission is the only national agency dealing generally with competition matters and the only agency with responsibility for enforcement of the Trade Practices Act and the associated State/Territory application legislation.

An upcoming challenge is the application of the New Tax System in relation to GST pricing.

The ACCC has a network of offices in all capital cities as well as Townsville and Tamworth to handle public complaints and inquiries.

Members

Members of the Commission are: Professor Allan Fels, Chairperson, Mr Allan Asher, Deputy Chairperson, and Commissioners Mr Sitesh Bhojani, Mr Rod Shogren, Mr Ross Jones, Mr John Martin and Dr David Cousins.

There is a number of part-time Associate Commissioners, some of whom are ex officio appointments from other Commonwealth, State or Territory regulatory agencies.

Contents

National developments

Telecommunications

Interconnect prices/ undertakings

On 24 June 1999 the ACCC issued a final decision on Telstra's PSTN originating and terminating access undertaking (i.e. for interconnecting to its network to provide international and national long distance calls). The ACCC's final decision is to reject the undertaking on the basis that the non-price terms and conditions are not reasonable. For example, the undertaking provides opportunities for Telstra to reject applications and to suspend services to access seekers on the basis of Telstra's reasonable opinion of matters such as credit worthiness. This would provide Telstra with significant discretion and create uncertainty for access seekers. The undertaking also imposes obligations on access seekers that are not imposed on Telstra's own operations.

The ACCC's draft decision noted its preliminary view that the cost of providing the services was 2.02 cents per minute. As a consequence of further analysis and consideration of industry comment on the draft decision, the ACCC now estimates that the efficient cost of providing these services in 1998–1999 is between 1.73 and 2.53 cents per minute. The major reasons for this change are new estimates of Telstra's trench lengths, revised assumptions about the level of trench sharing with other utilities and changes in the estimates for operating and maintenance costs of the Customer Access Network. The range in the cost estimate is largely due to varying estimates of Telstra's trench lengths.

While it is not necessary for the ACCC to specify an exact price that it considers reasonable for the purposes of assessing the undertaking, it is establishing a consultancy to provide an independent estimate of Telstra's trench lengths. This will reduce current uncertainty and be a significant input into the ACCC's consideration of any future undertaking or relevant arbitration.

The costs calculated by the ACCC include a contribution to Telstra's access deficit — that is, the shortfall that Telstra incurs because of line rentals being less than line costs. The Government recently announced changes to the retail price control arrangements, which will apply from 1 July 1999. While the ACCC could not determine the likely magnitude of any reduction in the access deficit because of the limited time from the decision on the retail price control arrangements to the final decision on Telstra's undertaking, the ACCC's preliminary view is that the decision is likely to have a not insignificant effect on the size of the access deficit.

The ACCC is undertaking further work on the effect of the retail price control arrangements.

Local number portability

Local number portability allows customers to change their supplier of local telephone calls but still keep their telephone number. On 23 June 1999 the ACCC issued for comment a guide on Pricing Principles for Local Number Portability. The guide indicates the principles the ACCC will apply if it is required to arbitrate a dispute over the terms and conditions of local number portability between the carrier whom the customer leaves and the carrier receiving the customer.

The guide reflects a change to the approach proposed by the ACCC in the draft guide issued in April 1998. Previously the ACCC indicated that most costs should be borne by the carrier whom the customer leaves. The carrier receiving the customer would, however, be responsible for any administrative costs of a customer 'porting' their number. Since publication of the draft guide the ACCC has come to a view that the carrier receiving a customer should not be responsible for **any** costs incurred by the carrier that initially provided the local service.

Facilities Access Code

On 22 June 1999 the ACCC issued the Facilities Access Code, which provides how access to telecommunications facilities owned by telecommunications carriers, including mobile towers and underground ducts, is to be provided to other carriers seeking to install their equipment.

The code establishes conditions of access and standards of practice to which carriers must adhere in providing facilities access to other carriers and will facilitate more timely and efficient access. It has been developed following consultation with industry and the Australian Communications Authority.

The code is a disallowable instrument and will be tabled in the Parliament for 15 sitting days by the Minister for Communications, the Information Economy and the Arts during the August sittings, which begin on 9 August 1999. The date of effect will be published in the Commonwealth Gazette.

Guidelines for financial reporting by telecommunications firms

On 3 June 1999 the ACCC issued for comment, a report on Record Keeping Rules for the Telecommunications Industry. The report, which was prepared with the assistance of Arthur Andersen, details a recommended reporting structure and key processes for capturing financial information from telecommunications firms. This includes:

- a comprehensive reporting architecture specifying the services which telecommunications carriers may be required to report against, including the separate reporting of wholesale (internal and external) and retail services;
- details of the information to be provided for each service, particularly the revenues, costs and capital associated with each service — this includes a detailed description of the financial statements required for each service, as well as a number of supplementary reports; and
- principles to be applied by carriers in developing detailed allocation methodologies in compliance with the record keeping requirements.

The proposed reporting and information rules will help the ACCC to investigate anti-competitive behaviour and determine appropriate access prices, by generating detailed financial information for key retail and wholesale services.

Draft decision on cable broadcasting networks

On 3 June 1999 the ACCC issued for comment its draft decision to 'declare' pay television carriage services. The decision applies only to analogue services supplied over cable.

A similar service was declared in 1997. However, doubts were raised about the validity of the service description and, in order to assure the industry of certainty, the ACCC commenced inquiries into declaration of pay television carriage services under the access provisions of the Trade Practices Act.

The ACCC has not yet reached a decision on whether to declare a technology neutral service, which would cover digital services. However, at this stage its preliminary view is that it is too early to tell whether declaration may become desirable, given the early stage of the deployment of digital technology to deliver broadcasting services.

Mobile number portability discussion paper

On 26 May 1999 the ACCC issued for comment a discussion paper on number portability in the mobile telephony market. The aim of the paper is to promote discussion on whether mobile number portability would promote the long-term interests of end-users in Australia. The paper argues that competition in the mobile market might benefit if mobile number portability were introduced.

The paper draws on overseas experiences with implementing mobile number portability and on recent Australian developments in the mobile market. It says that it is technically feasible to implement an integrated solution to mobile number portability allowing portability across different mobile services (such as GSM and CDMA) and, were mobile number portability to be implemented, it should be required across all mobile digital technologies.

The ACCC intends to issue a final decision on mobile number portability during the third quarter of 1999.

Indicative timeframes for telecommunications investigations and inquiries

On 17 May 1999 the ACCC announced its indicative timeframes for telecommunications investigations and inquiries.

When investigating alleged anti-competitive conduct by telecommunications providers, the ACCC's aim will be to determine whether it has a reason to suspect that there is a contravention of the Act, and whether it should proceed with the complaint, within 30 days of the initial complaint. The ACCC will then endeavour to reach a decision within a further three months on whether it has a 'reason to believe' there is a contravention of the Act.

If the ACCC has insufficient information to reach this decision within three months, it will inform the complainant and other interested parties that further time will be required. It will then periodically keep the complainant and other interested parties informed of the progress of the investigation.

If the 'reason to believe' test has been satisfied, the ACCC will then aim to decide whether to issue a competition notice within a further 30 days.

Under the indicative timeframes for declaration inquiries, the ACCC will determine, within 30 days of receiving a written request for an inquiry, whether it will hold an inquiry.

In the case of major or complex declaration inquiries, the ACCC will endeavour to release a discussion paper, hold any hearings and issue a draft report within six months. It will then expect to release a final report within a further three months.

In the case of other declaration inquiries, the ACCC will endeavour to complete its work and issue a final report within six months of commencing the inquiry. In such inquiries, the ACCC may choose not to hold a public hearing and would also need to consider whether a draft report is appropriate, having regard to the nature of the relevant issues.

The ACCC will strictly enforce the timeframes and may not consider information from industry that is not provided within the deadlines set. However, there will be circumstances where it is not possible to meet the indicative timeframes — e.g. because of the complexity of the matter being considered.

Telstra 'commercial churn'

On 13 April 1999 the ACCC issued a further competition notice against Telstra in respect of its failure to implement an efficient and effective local call transfer process (known in the industry as 'commercial churn'). This bought to four the number of notices against Telstra in respect of the commercial churn transfer process.

The fourth notice alleges that the conduct that is continuing, along with the price charged by Telstra for churn, is cumulatively a breach of the competition rule by Telstra. It follows other allegations that:

- Telstra requires other carriers wanting to transfer customers from Telstra to use a process that requires carriers to be Telstra's debt collector;
- where carriers choose not to collect Telstra's debts, Telstra imposes a fee of $15 per line, irrespective of whether or not the carrier is transferring one line or a number of lines; and
- Telstra uses a manual transfer process that is slow, inefficient and cumbersome.

On 24 December 1998 the ACCC instituted proceedings, in respect of two of the notices, in the Federal Court. It then, on 28 April 1999, filed fresh proceedings in the Federal Court in relation to Telstra's local call transfer process, based on the third and fourth competition notices.

Telecommunications access disputes (arbitrations)

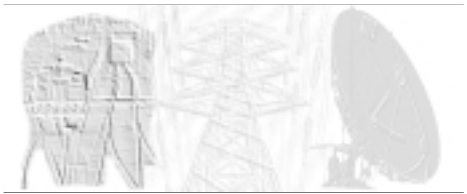
Since May 1999 a number of telecommunications access disputes under Part XIC of the Trade Practices Act have been notified to the ACCC.

- On 15 June 1999 AAPT notified the ACCC of two access disputes with Cable and Wireless Optus on the terms and conditions on which Cable and Wireless Optus proposes to supply AAPT with Domestic GSM Originating and Terminating Access Services.
- On 11 June 1999 AAPT notified the ACCC of two access disputes with Cable and Wireless Optus on the terms and conditions on which Cable and Wireless Optus proposes to supply AAPT with Domestic PSTN Originating and Terminating Access Services.
- On 11 May 1999 Cable and Wireless Optus notified the ACCC of two access disputes with Telstra on the terms and conditions on which Telstra supplies and proposes to supply Optus with Integrated Services Digital Network (ISDN) Originating and Terminating Services.
- On 30 April 1999 Macquarie Corporate Telecommunications notified the ACCC of a number of access disputes with Telstra. These related to Telstra's supply of the Digital Data Access Service (DDAS) to Macquarie, the price to be paid by Macquarie to Telstra for the supply of the DDAS and the terms and conditions associated with such supply.

Also, on 13 May 1999 Cable and Wireless Optus notified the ACCC of an access dispute under section 462 of the *Telecommunications Act 1997*, relating to Telstra's proposed solution to the routing of Telstra calls to ported numbers. Under s. 462 of the Telecommunications Act the ACCC is required to arbitrate where parties involved in a dispute relating to compliance with the numbering plan are unable to agree.

Other matters

- Submissions to the long distance mobile declaration inquiry have been received, and are presently being considered.
- Arising, in part, from the Government's recent amendments to the Trade Practices Act, the ACCC is currently updating its public information papers on declaration inquiries, telecommunications arbitrations and anti-competitive conduct in telecommunications markets, and the Competition Notice Guidelines issued pursuant to s. 151AP of the Trade Practices Act. The recent amendments increase the powers and responsibilities of the ACCC, including:
  - giving the ACCC a procedural directions power for commercial negotiations on access terms and conditions (when requested by one of the parties to the negotiation);



- additional monitoring and reporting functions;
- allowing for the more expeditious issue of competition notices; and
- providing for interim and retrospective arbitration determinations.

Relevant documents and media releases can be found on the ACCC website (www.accc.gov.au).

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Gas

Access arrangements under consideration

The ACCC is currently assessing four access arrangements for gas transmission pipelines under the National Third Party Access Code for Natural Gas Pipeline Systems.

The major issues that have arisen in the access arrangements assessed by the ACCC to date have principally been the regulatory rate of return and the asset base valuation which are required to determine reference tariff for third party access.

Central West Pipeline (CWP): AGLP

AGL Pipelines (NSW) Pty Limited submitted a proposed access arrangement to the ACCC for the CWP on 31 December 1998. The pipeline extends from Marsden to Dubbo in NSW. Revised access arrangement information was subsequently provided to the ACCC and five submissions were received following the release of an issues paper in February 1999.

The ACCC will release its draft decision shortly. A final decision will be issued following consideration of further submissions and other relevant information.

The ACCC has recently extended the time to assess the proposed access arrangement to 31 August 1999.

Moomba to Adelaide Pipeline: Epic Energy

On 1 April 1999 the ACCC received an application from Epic Energy South Australia Pty Ltd for approval of the proposed access arrangement for the Moomba to Adelaide Pipeline System.

Because of the terms of Epic Energy's haulage agreements with existing customers, the access arrangement proposed to provide only limited third-party access in the initial access period. That access (for firm or interruptible service) would be provided if the customer funded expansions of, or extensions to, the system, comprising one or more new delivery points, and expansion of capacity in the trunkline and in any lateral that would be used in providing service to the customer.

The ACCC sought further information from Epic Energy, including copies of the existing haulage agreements, so that it could consider the implications of the agreements in its assessment of the proposed access arrangement. The ACCC is currently assessing those agreements and is clarifying issues with Epic Energy before it releases an issues paper and invites submissions on the proposed access arrangement from interested parties.

Moomba to Sydney Pipeline System (MSP): EAPL

East Australian Pipeline Limited (EAPL) submitted its proposed access arrangement for the MSP on 5 May 1999. A public notice was placed in the *Australian Financial Review* on 19 May 1999, and an issues paper was released on 4 June 1999, inviting interested parties to make submissions on the proposed access arrangement by 2 July 1999. After consideration of submissions and other relevant information, the ACCC will issue a draft decision on the proposed access arrangement and call for further submissions before issuing a final decision.

Amadeus Basin to Darwin Pipeline: N.T. Gas

On 29 June 1999, N.T. Gas Pty Limited (N.T. Gas) lodged a proposed access arrangement for the Amadeus to Darwin Pipeline with the ACCC. The ACCC will issue a public notice and an issues paper inviting interested parties to make submissions after it has considered the proposal.

Access arrangements — lodgement deferred

To date the ACCC has received and granted applications to extend the time in which service providers must submit access arrangements for the following pipelines:

Darwin City Gate to Berrimah Pipeline (NT Gas/AGL) — due 12 February 2000;

Riverland Pipeline in South Australia (Envestra) — due 30 September 99; and

Berri (SA) to Mildura (Vic) (Envestra) — due 30 September 99.

ACCC — regulator of NT gas distribution

The ACCC is currently finalising an agreement with the Northern Territory Government that formalises its role as the 'local regulator' for the Northern Territory's gas distribution system.

The contract is due to come into effect from 1 July 1999 and will continue for a five-year period. This is the first time that the ACCC has

been nominated as the local regulator and this outcome sets an important precedent for the gas, and possibly electricity, industries.

Allgas interim authorisation

(Authorisation application: A90691 A50024 A50025)

Allgas Energy Ltd, a subsidiary of Energex Ltd, a Queensland government corporation, recently sought interim authorisation from the ACCC to allow it to negotiate sales of gas from the Papua New Guinea (PNG) gas project. Allgas is proposing to purchase significant volumes of gas from PNG gas producers and sell that gas to a number of customers in Queensland, predominantly for electricity generation.

Allgas in its application, identified two issues that may potentially contravene the Trade Practices Act. Firstly, Comalco's participation in the Allgas/PNG joint venture negotiations may amount to an exclusionary provision. Secondly, the proposed sales contracts may have the effect that one or more of Allgas' customers not acquire gas from any competitor of Allgas, potentially resulting in a substantial lessening of competition pursuant to ss 45 and/or 47 of the Act.

The ACCC sought comments from industry and received significant input in spite of the tight deadline for responses. The most commonly raised issues related to the role of the Queensland Government in the PNG joint venture and concerns that an authorisation for exclusive dealing may undermine other gas infrastructure projects in Queensland.

The ACCC decided to grant limited interim authorisation to Allgas subject to specific conditions. The interim authorisation allows Allgas to discuss, negotiate, and arrive at an understanding with any potential user for the supply of gas. In addition it is authorised to continue to engage Comalco in discussions and negotiations with the PNG producers. The ACCC did not grant interim authorisation to cover the making of, or the giving effect to, understandings, arrangements or contracts between Allgas and any user for the supply of gas.

The ACCC is concerned about the potential effect on competition and the long-term anti-competitive effects of implementing structural rigidities via Allgas' proposal. This is particularly the case as the gas and electricity markets in Queensland are continuing to evolve rapidly. Accordingly, the ACCC will continue to monitor market developments to ascertain whether the interim authorisation is having any unintended competition effects.

Update on market system and operations rules (MSOR)

At a directions hearing on 28 May 1999 the Australian Competition Tribunal accepted that it has jurisdiction in this matter, notwithstanding the Victorian Government's statutory exemption of the MSOR.

The Tribunal agreed to a timetable, which involves a series of pre-hearing procedures up to 10 December 1999 and a hearing some time next year. The key dates for filing evidence to the Tribunal are as follows:

26 July	Statement of issues and contentions in response to the applicants' statements
9 Aug.	Response to any other statements
27 Sept.	Witness statements
11 Oct.	Supplementary witness statements
22 Oct.	Directions hearing
26 Nov.	Expert witness statements
10 Dec.	Outline of principal submissions

MSOR — rule changes

A public consultation process on VENCorp's application for variation of the interim authorisation of the MSOR has been completed.

A staff paper is now being developed for the ACCC to consider this application, as well as the application for amendment of the Access Arrangement (to reflect the same set of rule changes).

VENCorp annual statement

Under the Victorian Gas Industry Tariff Order, VENCorp is obliged to give the ACCC an annual statement which sets out its total annual costs and market fees for the forthcoming financial year.

The ACCC decided not to approve the statement on the basis that it is inconsistent with the Tariff Order and contains an unsatisfactory forecast of total annual costs.

The ACCC also decided to allow VENCorp to replace the statement with one that has been approved by a VENCorp Board which includes industry and independent representatives. The newly constituted Board is likely to consider an amended statement on 22 July 1999.

Contacts

Progress and status of current work projects of the ACCC's Gas Group

can be found at the ACCC website www.accc.gov.au under 'Gas'.

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Electricity

NSW and ACT transmission network revenue cap

The ACCC, in accordance with its responsibilities under the National Electricity Code is conducting an inquiry into the appropriate revenue cap to apply to the NSW and ACT electricity transmission network for the five-year regulatory period commencing 1 July 1999.

The ACCC recently released a draft decision outlining the maximum revenue that may be earned by TransGrid, the main provider of transmission services in these jurisdictions. The decision also covers the transmission services provided by EnergyAustralia in NSW. TransGrid and EnergyAustralia were formed in the break up of Pacific Power in 1995.

The draft decision is the first made by the ACCC as the economic regulator of electricity transmission in the National Electricity Market.

The review was conducted in conjunction with the Independent and Pricing and Regulatory Tribunal (IPART). The ACCC's draft decision draws on consultancy reports, the analysis of data and information presented before the ACCC and submissions from interested parties. The draft decision considers regulatory issues such as the opening asset base, the weighed average cost of capital and the treatment of capital expenditure.

For TransGrid, the draft decision proposes an opening asset base of $1.8 billion, a figure provided to the ACCC by IPART. This compares with the optimised depreciated replacement cost estimated by NSW Treasury of $2.064 billion. The draft decision also proposes a weighted average cost of capital of 7.25 per cent and a revenue cap of $305 million in 1999–2000, which rises to $317 million by 2003–2004. If adopted, the ACCC's draft decision will result in a reduction in TransGrid's revenue, which in turn will result in lower prices for TransGrid's customers.

For EnergyAustralia the ACCC accepted an opening asset base of $345 million, a figure provided to the ACCC by IPART. In determining the Weighted Average Cost of Capital (WACC) the ACCC adopted a figure of 7.25 per cent, the same figure used in the TransGrid decision. The draft decision proposes a revenue cap of $47 million, beginning in 1999–2000, rising to $51 million by 2003–2004 for EnergyAustralia's transmission assets.

The ACCC convened a public forum on the draft decision and has called for submissions from interested parties. It will take into account the comments made at the public forum and submissions received from interested parties in making the final decision. The ACCC expects to release its final decision in August 1999.

The Transmission Regulator in NSW

On 24 June 1999 NECA on behalf of the NSW Minister for Energy applied to the ACCC for authorisation of derogations from the National Electricity Code. The effect of the derogations is:

- the ACCC will become the jurisdictional regulator for the NSW transmission network from 1 July 1999, as envisaged in the code; and
- during the period 1 July 1999 to 31 January 2000, the ACCC will administer the existing IPART revenue (and pricing) determination; and
- from 1 February 2000 onward, the ACCC's transmission decision will apply.

The NSW Government contends that public benefits arising from the postponement include:

- it provides a period for addressing uncertainties as to how the opening asset base of the network is to be valued;
- it will enable pricing anomalies, the subject of NECA's Network Pricing Review, to be resolved;
- further time will be required by TransGrid and the distribution businesses to develop the tariffs arising from the ACCC's transmission revenue decision and IPART's distribution pricing report; and
- it avoids overlap with Y2K issues faced by the State's electricity industry at the end of this year.

The ACCC recognised that the NSW Government wanted the arrangements to take effect from 1 July 1999. On 30 June 1999, the ACCC granted interim authorisation to the arrangements. In reaching this decision, the ACCC considered that interim authorisation was appropriate for the purpose of enabling due consideration to be given to the arrangements.

The ACCC is conducting a public consultation process on this issue and requests submissions from interested parties. Following this, the ACCC will fully examine the competitive effects of these arrangements and issue a draft determination.

The interim authorisation will lapse when the final determination is made.

Draft statement of principles for the regulation of transmission revenues

The ACCC recently released its *Draft Statement of Principles for the Regulation of Transmission Revenues (Draft Regulatory Principles)*. This set out the ACCC's proposed framework for the regulation of electricity transmission revenues, as required under Chapter 6 of the National Electricity Code (NEC).

Key points in the proposed regulatory framework include:

- use of a building block approach based on forecasts of the cost of service over the regulatory period — this forms the basis for an incentive oriented revenue cap or aggregate annual revenue requirement;
- a nominal post tax framework, where taxes are part of the cost of service;
- inflation protection provided via CPI-X adjustment of the revenue cap;
- an optimised depreciated replacement valuation methodology to set a **cap** on the valuation of the asset base;
- only prudent capital expenditures may be added to the regulatory asset base;
- the depreciation profile is designed to replicate the outcomes of a contestable market;
- each transmission network service provider must propose a single set of service standards and benchmarks for each standard;
- the ACCC's information gathering powers will be used to develop a realistic understanding of the transmission network business;
- a regulatory period of five years;
- a competitive tender process to determine the aggregate annual revenue requirement for a new interconnector in the National Electricity Market will be allowed under certain conditions; and
- ring fencing guidelines adapted from those contained from the National Gas Access Code will apply to electricity transmission.

Consultancy arrangements

One of the ACCC's objectives in publishing the *Draft Regulatory Principles* was to provide an opportunity for customers, Transmission Network Service Providers, and other stakeholders to participate in the development of the regulatory framework.

The *Draft Regulatory Principles* present to interested parties the ACCC's position on the issues to be addressed in the regulatory process and describes the processes by which the ACCC will undertake its regulatory task. To assist interested parties in understanding the proposed regulatory framework, the ACCC hosted three information forums. These were held in Brisbane, Melbourne (with a video link to Adelaide), and Sydney.

Interested parties were invited to respond to the *Draft Regulatory Principles*. In particular, Chapter 6 of the NEC specifically requires the ACCC to consult NEC participants and other interested parties regarding the development of the transmission ring fencing guidelines.

A copy of the *Draft Regulatory Principles* is available from the ACCC's Canberra office.

ACCC regulation of Snowy Mountains Hydro–Electric Authority transmission revenues

The ACCC has been requested to conduct an inquiry into the appropriate revenue cap to apply to the non-contestable elements of the Snowy Mountains Hydro–Electric Authority (SMHEA) transmission network services.

The ACCC has sought public comment on the matter and expects to complete a draft determination around late August 1999 with the final draft expected to be completed following further consultation.

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Airports

ACCC's draft decision on Adelaide Airport passenger charge

Introduction

The price cap arrangements at privatised 'core regulated' airports include provisions for airport operators to recover costs of necessary new infrastructure expenditure through charging increases outside the price cap. The ACCC has the role of assessing applications for such increases.

In October 1998 Adelaide Airport Limited (AAL) lodged an application with the ACCC to pass costs of a new Multi-User Integrated Terminal (MUIT) through the price cap. AAL's proposal involved the introduction of a levy charged on passengers through the airport.

In May 1999 the ACCC issued its draft decision to allow a $3.45 charge per passenger to be imposed for a 15-year period. As is the case with these provisions, this charge would not be included within the scope of the annual assessment of price cap compliance.

The regulatory framework

Aeronautical charges at privatised core regulated airports are subject to a CPI-X price cap. Declaration number 84 made by the Treasurer

pursuant to section 21 of the Prices Surveillance Act 1983 sets out the services subject to the cap.

Direction number 13 made by the Treasurer pursuant to s. 20 of the Prices Surveillance Act sets out the price cap formula, the 'X' values and guidance to the ACCC on the administration of the price cap. The level of 'X' for Adelaide Airport is 4.0 per cent.

Direction number 13 also includes the provisions which allow for increases in charges to fund 'necessary new investment'. The provisions allow an airport operator to apply for increases in charges beyond those allowed under the CPI-X price cap, and give the ACCC the role of assessing the application. The Direction sets out nine criteria, which the ACCC must take into account in deciding whether to approve a proposal.

The criteria essentially focus on the efficiency and quality outcomes of investment for the airport's operations, the relationship of the proposed charges to costs and support from users for the proposals.

Acceptance by the ACCC of the application means the airport operator is able to raise charges without those increases affecting its compliance with the CPI-X price cap.

If the ACCC does not accept the application, the airport operator can amend it and resubmit it to the ACCC for reconsideration. In assessing a revised application, the ACCC will consult interested parties.

AAL's proposal

Adelaide airport is operated by AAL under a long-term lease from the Commonwealth Government. As part of its bid for the lease, AAL gave a commitment to developing a plan for a MUIT which will combine the currently separate domestic and international terminals in a new terminal building. AAL is seeking to recover the 'aeronautical' component of the costs of the MUIT and associated facilities through a charge on passengers (a Passenger Facility Charge or PFC).

The MUIT proposal is to construct a new building which integrates the domestic and international operation to the extent that gates can be allocated to international or domestic flights on a flexible basis. AAL claims that the building frame has been scaled to provide for projected passenger numbers until 2010. It has a modular design that can allow for incremental expansion as demand develops.

The proposed PFC would be levied on passengers through airlines adding it to the ticket price when the customer purchases the ticket.

AAL has derived the PFC using a discounted cash flow analysis of the project. Cash flows have been projected over 19 years, comprising a four-year design and construction period and a 15-year cost recovery period.

The PFC has been determined by that price which allows the net present value of the project's cash flows to equal zero. On this basis AAL proposed a PFC of $3.66 per arriving and departing passenger.

The PFC proposal would provide for:

- recovery of the 'aeronautical' component of construction costs;
- recovery of the cost of a refuelling facility which is currently considered to be outside the price cap;
- a pre-tax real rate of return of 8.89 per cent on the aeronautical component of AAL's investment; and
- a contribution to additional operating costs associated with the new facility.

The ACCC's assessment

During the assessment process the ACCC gave emphasis to issues concerning the cost of capital, cost allocation and user support. The assessment of the other criteria, those relating to efficiency and quality, was generally not contentious, as the ACCC found that the MUIT will make significant contributions in these areas.

Cost of capital

In its application AAL preferred to use a pre-tax real weighted average cost of capital (WACC). The approach AAL adopted mostly followed that described in the ACCC's final report on the Victorian Gas Access Arrangements. Under this approach:

- the capital asset pricing model (CAPM) is used to estimate the rate of return on equity;
- the risk-free rate of return is based on medium-term bond yields;
- an asset beta is estimated with reference to comparable assets; and,
- an effective tax rate of 36 per cent is assumed, with imputation credits valued at 50 per cent.

The asset beta represents an important variable in the CAPM approach. AAL derived its asset beta by referring to the equity betas of publicly listed airport operators and 'de-levering' them to remove the influence of each airport's financial gearing. As there are no listed airport operators in Australia, AAL used examples from Austria, Denmark, New Zealand and the U.K. From the range of observed betas AAL chose the upper end (Auckland's) beta of 0.66 arguing that:

- of the comparable airports, Auckland is most similar to Adelaide;
- no airlines hub out of Adelaide, which AAL argues reduces the certainty of flights to and from Adelaide; and,

- the comparable airports represent the major gateway to their countries.

The ACCC's draft decision is that AAL's pre-tax real WACC is 8.25 per cent. The post-tax nominal WACC implied by this 8.25 per cent pre-tax real WACC is 7.04 per cent. The implied post-tax nominal return on equity is 16.1 per cent.

AAL has followed the approach adopted in the gas decision in using a pre-tax real WACC to derive a real price. This approach then increases the PFC in line with the consumer price index over the term of the project. The complication is that the pre-tax real WACC is derived from the CAPM, which is stated in post-tax nominal terms.

The gas decision highlighted the difficulty of converting a post-tax nominal WACC to a pre-tax real WACC formulation used to calculate revenues. The consensus of experts in this field was that the appropriate pre-tax real WACC lies between the upper and lower bounds provided by the two alternative transformation methodologies. That is, the appropriate after tax returns to capital investors will be achieved using a pre-tax real WACC in between these bounds. The ACCC considers the midpoint between the two bounds of 8.25 per cent as representing a reasonable estimate of the pre-tax real WACC.

The ACCC notes that although the gas decision approach has been accepted on this occasion, this should not be viewed as an indication that the gas decision represents a strict precedent on cost of capital issues. The ACCC recently released it Statement of Principles for the Regulation of Transmission Revenues. This document outlines the ACCC's general preference for the rate of return to be calculated in post-tax nominal terms. Under this approach, taxation is treated as a cost within the cash flows, rather than being incorporated formulaically, as with the pre-tax real approach.

Cost allocation

The regulatory regime applying to privatised airports effectively requires the airport operator to conceptually separate the airport into its aeronautical functions and its non-aeronautical functions. When considering an application to pass the cost of new investment through the price cap, the ACCC is required to assess the relevant costs. Because the price cap applies only to charges for aeronautical services the relevant costs will comprise those which relate to the provision of aeronautical services. The MUIT is a combination of aeronautical assets (such as aerobridges and baggage handling systems) and non-aeronautical assets (such as retail stores and space for car rental desks). As the price cap relates only to aeronautical charges, it is primarily the costs related to aeronautical functions that may be included in the PFC.

AAL has taken what may be described as an 'incremental' approach to cost allocation. For each area within and attached to the MUIT building, AAL claims to have questioned whether that area or facility would be necessary for the function of the airport in the absence of non-aeronautical activities. If the area or facility is found to be necessary then AAL has generally factored its entire cost into the PFC.

The ACCC has made a number of adjustments to costs in cases where those costs appear to be common to both aeronautical and non-aeronautical activities. This approach reflects the ACCC's in principle approach to cost allocation – that common costs should be allocated between aeronautical and non-aeronautical functions of the airport. In the case of AAL, costs were allocated primarily on the basis of the proportion of floor area being used for aeronautical purposes.

User support

The ACCC discussed AAL's MUIT proposals with representatives of Ansett and Qantas prior to preparing the draft decision. Letters of endorsement from other interested parties (such as exporters, the tourism and hospitality industries, and the South Australian Government) provided to the ACCC indicate that the MUIT proposal has support from a range of airport users. The ACCC is not aware of any objections to the construction of a MUIT or to its basic design and is satisfied that the concept of a PFC has the support of a range of users. The draft decision does, however, ask for comments from users as to the appropriateness of two optional projects associated with the MUIT development: an automated baggage handling system and a hydrant system for refuelling aircraft. Following the publication of the draft decision, the ACCC may liaise with significant prospective users of the new investment in order to clarify their views.

This draft decision forms part of the process which the ACCC will use to determine the level of user support for both the MUIT development and its associated charges.

The draft decision

In developing this draft decision the ACCC had regard to the Treasurer's Direction and to the preliminary views of interested parties. After making adjustments to AAL's cost allocation and weighted average cost of capital proposals, the ACCC arrived at a PFC of $3.45. This figure is calculated on a real basis. In nominal terms, the PFC would be around $3.59 upon its planned introduction in 2001. It may then increase at approximately the rate of inflation as measured by the consumer price index. The PFC will not be regarded as an increase in aeronautical charges for the purposes of determining AAL's compliance with its CPI-X price cap.

Quality of service monitoring under Part 8 of the Airports Act 1996.

In regulating airports the ACCC reports annually on certain aspects of performance for 'core regulated' airports that have been leased by the Government.

The ACCC recently released the first annual regulatory report for each of the phase I airports. The reports cover the price cap compliance, quality of service, financial accounts reporting, and prices monitoring of an airport.

The ACCC is required to conduct quality of service monitoring pursuant to Part 8 of the Airports Act 1996. Under the regulations to the Airports Act, airport operators are required to provide information to the ACCC on a range of quality indicators. These indicators cover various aspects of an airport's service quality performance and include areas such as runways and taxiways, check in facilities, gate lounges, aerobridges and security clearance systems.

Quality of service monitoring is a complement to the prices oversight arrangements. Under price cap regulation there may be incentives for airport operators to increase profits by reducing costs. In some cases such cost cutting may lead to a lower quality of service. Quality of service monitoring is a means of providing an indication of whether such cost cutting might be occurring over time.

The objectives of quality of service monitoring are:

- to provide transparency about airport performance;
- to discourage airport operators from providing unsatisfactory standards for services which are associated with significant market power; and
- to help the ACCC assess an airport operator's conduct as part of the review of the prices oversight arrangements. The ACCC is required to undertake this review toward the end of the first five years of the price cap.

The information requested by the ACCC from airport operators is directed towards meeting these objectives.

In reporting on the quality of service indicators for the three phase I airports, the ACCC focused on the standard and availability of facilities and services provided by, or which could be influenced by, the airport operator. These facilities and services included:

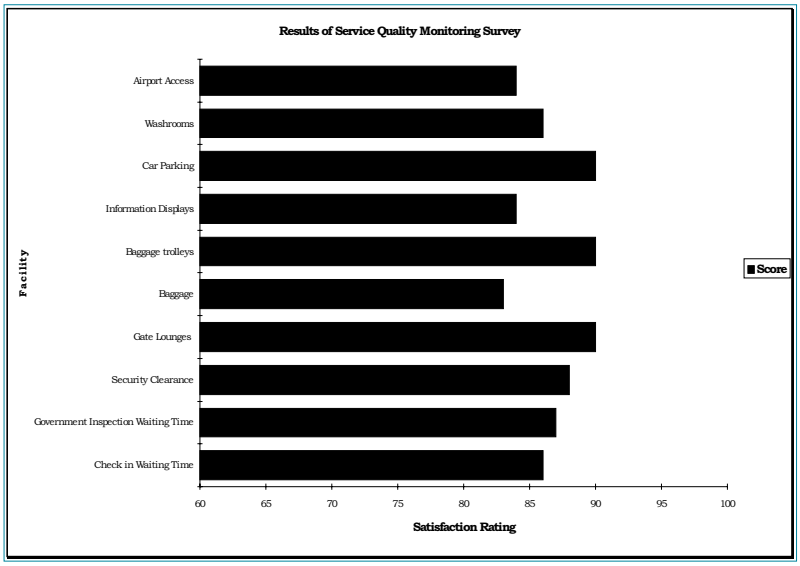
- airside facilities such as runways, taxiways and aprons;
- terminal facilities, such as international departure lounges and baggage claim;
- car parking; and
- taxi and bus pick up and drop off points.

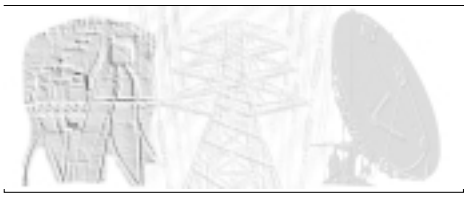
Domestic terminals owned and/or operated by airlines were not included as part of the quality monitoring report.

In constructing the quality monitoring reports, the ACCC sought information from a number of different sources. These sources included customers of the airport, airport operators, airlines, the Australian Customs Service and Airservices Australia.

Customer views were obtained through customer perception surveys conducted by the airport operator. The airport operator designed a survey questionnaire consisting of open ended and scaled format questions. The ACCC then consulted with airport operators and approved the survey design before it was distributed to customers.

The results from the perception surveys indicated that customers considered the quality of service at all three airports to be high. The graph below depicts the results obtained from Brisbane Airport's customer perception survey. It is provided as an example of the format of results in the regulatory reports. As can be seen, Brisbane Airport achieved high scores in each category surveyed. All categories rated at 80 or above, which indicated that customers were satisfied with the service quality at Brisbane Airport. It should be noted that each service area was rated on a number of aspects. For example, the gate lounges were a rated on availability of seating, comfort, cleanliness and size. Scores shown on the graph are indicative of the scores achieved for each aspect of the service in question.





Melbourne Airport performed equally well in terms of customer perceptions of quality. Results from the survey indicate a high quality of service at Melbourne Airport for the 1997–98 financial year. All categories, except for baggage, obtained a score of 4 or above. This indicated that customers rated the facilities at Melbourne as very good to excellent. In the case of baggage, a score of 3.9 was obtained, indicating that the service achieved a rating of good to very good. The baggage category included quality aspects such as baggage congestion, waiting time, ease of finding the correct belt and the information display areas.

The customer perception survey at Perth Airport also indicated high quality of service levels. Perth Airport used a seven-point scale in its customer questionnaire ranging from very poor (1) to excellent (7). In most instances, 70 per cent of customers rated the quality of facilities at Perth Airport as very good to excellent. The exceptions were the baggage circulation space area and the washrooms for departing passengers. These two indicators still achieved good scores, but did not reach the quality levels achieved in other areas. Forty per cent of passengers rated the baggage circulation space as very good, while just under 60 per cent rated the washrooms for departing passengers as very good.

Customer perception surveys were not the only source of information used by the ACCC to rate the quality of service at the airports. It also conducted surveys on the quality of aprons, runways, taxiways, gates, aerobridges, check in-facilities and baggage processing facilities. Airlines were asked to rate the standard of equipment in performing the function intended and the availability of infrastructure and equipment. In order to accurately report on the results from the various quality indicators, the ACCC sought additional comments from airlines in areas where comments were critical, or where concerns had been raised.

The ACCC then followed up any issues with the relevant airport operator and commented on its findings in the regulatory reports.

Airport operators and associated industry bodies such as the Australian Customs Service were also consulted.

Contact Margaret Arblaster ACCC
03 9290 1862

State developments

Victoria

Office of the Regulator-General

Electricity

2001 Electricity distribution price review

Since the report on this major project in the last edition of this newsletter, the Office has further advanced the public consultation process on several issues relating to the review. As a result of the release of a revised timetable for the review:

- submissions will be received from distribution businesses with a consolidated price/service proposal for the period 2001 to 2005, which will form a focal point of the pre-decision consultation process; and
- the Office has released preliminary guidelines for the preparation of submissions to the review, which set out its preliminary views on the key issues of regulatory principle and methodology.

In effect, the processes now in train will involve the receipt of the licensees' submissions by 1 November 1999, followed by further public consultation, the release of an issues paper by the Office, a public forum and the release of a draft decision for public comment by 1 May 2000. The Office's final decision will be published by 1 September 2000.

The Office held open meetings in Melbourne on 4 June and 18 June 1999 to gain inputs into efficiency measurement and benefit sharing, the form of price control, and the cost of capital. It also conducted an extensive consultation process with distributor and customer representatives over service benchmarks and standards for the 2001-5 period.

Electricity distribution businesses comparative performance report

For the information of both customers and the industry, the Office publishes six-monthly public reports comparing the performance of Victoria's five electricity distribution businesses.

In mid-July the Office will issue a comprehensive report detailing the comparative performance of the companies over the 1998 calendar year. The principal criteria by which the companies are measured are quality, affordability, and profitability of their monopoly services.

Briefly, the report *Electricity Distribution Businesses —*

Comparative Performance in 1998 indicates:

- improved profitability by all businesses;
- continued improvement in State-wide reliability, with mixed results for individual distributors;
- generally improved affordability due to price reductions and increased use of instalment plans for bill payment;
- continued reductions in disconnections for non-payment overall, with rises in some companies; and
- generally improved customer service but with mixed results on repairing streetlights.

A copy of the complete report is available on the Office's website http://www.reggen.vic.gov.au

Retail competition

The Office conducted a public forum on 1 July 1999 on the need for, and form of, a customer protection regime covering small electricity customers who will become contestable in 2001. Issues addressed at the forum included whether retailers should have an obligation to sell, minimum retail standards, and marketing practices and default tariffs. A consultation process will commence later in July 1999 leading to the publication of a draft framework paper in November 1999.

Regulatory audits of electricity distribution businesses

A summary of the results of the inaugural independent audits of key obligations of the Victorian electricity distribution businesses, particularly regarding the quality of regulatory data, the quality of their asset management programs, and their compliance with service standards, will be released in the second half of 1999.

System Code review

The Office is about to commence consultation on its review of the System Code, which specifies transmission service standards which are required to be complied with in Victoria. The revised code is expected to be issued by December 1999.

Draft decision paper on Melbourne Docklands licence application

This draft decision deals with regulatory arrangements for promoting network competition in the context of an application by Powercor for a licence to distribute electricity in the Melbourne Docklands where Citipower is the incumbent licence holder.

A range of issues have been examined by the Office including the extent to which there is likely to be effective competition between the licensees for the right to distribute electricity in the Docklands and, if not, the extent to which some form of ongoing regulatory oversight is necessary. The Office's draft decision, released in June 1999, proposes that a new, separate licence be issued to Powercor to provide electricity distribution services within Docklands.

Public comment on the draft decision closed 16 July 1999. The Office intends to make a final decision by the end of August.

Maximum Uniform Tariffs for 1999–2000

The Office recently released the Maximum Uniform Tariffs for franchise customers during the period 1999–2000. These tariffs set out the maximum electricity prices for Victoria's 1.5 million (approx.) franchise customers who do not yet have choice of electricity retailer.

Under the current legislation the Office will approve similar tariffs for the year 2000–2001. However, this tranche of customers becomes contestable on 1 January 2001.

Gas

Victorian Gas Distribution System Code

The Office is currently undertaking a major review of this code and is assessing numbers of public submissions relating to the review. Part of the review was brought forward to amend the Unaccounted for Gas Table (UAFG) in the Code to align it with that previously amended in 1998 in the access arrangement information. This UAFG amendment became operative on 1 July 1999.

The revised Code will be ready by 1 October 1999 when Victoria's largest gas customers become contestable.

Draft Gas Industry Guideline No. 4

The Office has invited public comment on its Draft Gas Industry Guideline No. 4 which is aimed at prohibiting anti-competitive conduct by significant gas producers.

Under Part 3A of the Gas Act significant producers are prohibited from engaging in conduct which discriminates among gas retailers in a manner which has the purpose, or has or is likely to have the effect, of substantially lessening competition in the Victorian gas market. One aim of the provision is to ensure that significant producers do not engage in anti-competitive conduct that creates disincentives for independent gas retailers to seek alternative sources of gas supply. To clarify any uncertainties the Office proposes to publish Gas Industry Guideline No. 4 to set out how the Office may make decisions about possible breaches of the Competition Rule, and to process applications for authorisation.

A public seminar on the matter was held in Melbourne on 13 July 1999. Submissions to the Office closed on 30 July 1999 and the final guideline will be issued mid-September 1999.

Contact Terry Morris ORG
03 9651 3296

Victorian Treasury

Where to from here?

As of 1 July 1999 the Commercial Policy and Projects Division (CPP) began operation. CPP represents the merger of privatisation and Industry Reform Division (PAIRD) and Energy Projects Division (EPD).

CPP … Creating a secure and prosperous Victoria through leadership in commercial principles and practices to continuously improve the way business is done in Government.

Background on energy reform

The Energy Projects Division (EPD) of the Department of Treasury and Finance (DTF) was established in 1996 with a three-year mandate to complete the Government's energy sector reforms. In that time EPD has concluded the privatisation of the electricity generation and transmission sectors, participated in the establishment of the National Electricity Market, restructured and privatised the gas transmission, distribution and retail sectors and established the Victorian gas spot market and independent system operator.

EPD has now fulfilled its mandate as planned. While energy reform will continue to be an important policy focus for the Department, it no longer requires the depth of resource of a stand-alone division. As a result of this and some other changes in emphasis in the Department's business plan, a new Commercial Policy and Projects Division (CPP) has been created to succeed EPD and the privatisation and Industry Reform Division (PAIRD) from 30 June 1999.

John Robinson continues to be Director, Energy Policy and he and his group will remain at the offices on level 3, 35 Spring Street, Melbourne. John's group consists of Peter Clements, Peter Naughton, Mark Feather, Jenny Clark, John Krbaleski, Neil Jenkins and Lyndon Jaffer. Nicole Elliott will be assisting the Energy Policy Unit in communicating energy reform policy issues and projects.

The Victorian Government's energy reform program has injected approximately $30 billion in proceeds following privatisation of the gas, aluminium and electricity industries.

Contact John Robinson CPP
03 9651 320

South Australia

Update — South Australian Independent Pricing and Access Regulator

On 22 February 1999 Envestra submitted its proposed Access Arrangement to the South Australian Independent Pricing and Access Regulator (SAIPAR) for his consideration. The proposed Access Arrangement outlined the terms and conditions that will make access to the above network available to third parties. The National Third Party Access Code for Natural Gas Pipeline Systems provides for public submissions on the proposed Access Arrangement and Access Arrangement Information.

Upon examination of the information in the documents provided, it was apparent that additional information was required to meet the requirements of sections 2.6 and 2.7 of the code including the specific items of information listed in Attachment A to the code.

It was therefore decided to extend the closing date for receipt of public submissions until 20 August 1999.

Before releasing the draft decision on the proposed access arrangement, SAIPAR will hold a half-day public consultation session on 23 September 1999 commencing at 9.30 am. on Level 13 Wakefield House, 30 Wakefield Street, Adelaide. Please ring Ms Gina Reardon on 08 8226 5788 to confirm your attendance. Early registration of interest would be appreciated.

The SAIPAR website at www.saipar.sa.gov.au contains the latest information/developments.

Contact Gina Reardon, SAIPAR
08 8226 5788

Electricity regulation framework

Utility Regulators Forum Newsletter No. 5 (August 1998) provided a detailed description of the proposals of the South Australian Government for reform of the electricity supply industry, including privatisation of the State's electricity businesses. The reform program included restructuring of these businesses and establishment of a new regulatory framework for the industry.

On 12 October 1998 the Government implemented the restructure of the State's electricity businesses into the following seven entities:

- ETSA Power and ETSA Utilities, the retail and distribution businesses, with approximately 725 000 customers and 71 000 circuit kilometres of lines;
- Flinders Power, Optima Energy and Synergen, the three generation companies, with installed capacities of 760MW, 1280MW and 359MW;
- ElectraNet SA, the transmission business, with over 5550km of high voltage transmission lines operating at 66kV, 132kV and 275kV; and
- Terra Gas Trader, a gas trading business established to manage

the State's gas contracts and gas bank.

Subsequently, on 13 December 1998, a competitive electricity market environment was introduced in South Australia with commencement of the National Electricity Market. Under the contestability timetable for the State, customers with annual electricity consumption greater than 4GWh became eligible from 20 December 1998 to choose their electricity supplier. Such choice was extended on 1 July 1999 to customers with annual consumption greater than 750MWh. From 1 January 2000, customers with annual consumption greater than 160MWh will be eligible to choose their electricity supplier.

Parliament enacted the *Electricity Corporations (Restructuring and Disposal) Act 1999* on 11 June 1999, authorising the Government to proceed with the long-term lease of the State's major electricity assets. There is no restriction in the legislation as to the term of any such lease nor is there any requirement for parliamentary approval of any extension of such a lease.

On 29 June 1999, the Premier launched the Government's program for long term lease of the State's electricity businesses. The Premier announced that ETSA Utilities (distribution) and ETSA Power (retail) would be offered first, followed by the three generation companies and the gas trader. The final company to be leased will be ElectraNet (transmission). The process is expected to take between 12 and 15 months to complete, though the timetable has flexibility. The Government has released a comprehensive Industry Statement, detailing the electricity businesses and their place in the National Electricity Market. This Statement is available on the Government's power website: www.treasury.sa.gov.au/power.

During July, Parliament will proceed with debate on the legislation (Independent Industry Regulator Act 1999, Electricity (Miscellaneous) Amendment Act 1999) which establishes the new regulatory framework. This legislation is expected to be enacted by August 1999.

As summarised in Utility Regulators Forum Newsletter No. 5, the following are key features of the proposed regulatory framework.

- Establishment of a **general** independent regulator through specific legislation, with the electricity industry being the first industry sector brought within the framework of the regulator. Other sectors may also be referred to the regulator at some future point, subject to parliamentary approval.
- In relation to the electricity industry, the regulator will:
  - issue licences for retail, generation, transmission and distribution sectors;
  - make price determinations for network services and franchise prices, though for an initial period prices will be determined through an Electricity Pricing Order set by the Government;
  - make codes and rules in relation to regulated entities, with the issue of licences made subject to the requirements of such codes and rules; codes may include baseline standards for the regulated entities;
  - monitor, and report publicly on, the performance of regulated entities;
  - consult with relevant industry and consumer groups;
  - perform the functions and exercise the powers of the South Australian jurisdictional regulator for the purposes of the National Electricity Code.
- The Technical Regulator under the *Electricity Act 1996* will continue to monitor safety and technical matters as defined by the Act and Regulations.
- Establishment of an Electricity Industry Ombudsman Scheme, envisaged to be similar in nature to the schemes currently operating in Victoria and NSW.

Contact Patrick Walsh Senior Regulation Adviser Electricity Reform and Sales Unit (08) 8204 1287

Western Australia

Operational audits in the WA water industry

The WA Office of Water Regulation uses independent audits of its licensees to monitor standards within the licence, identify compliance concerns and ensure accuracy of licensee reports.

The audits provide an insight into water utilities' operations and compliance with the licences issued by the Office of Water Regulation. The audits examine the licence holder's performance in establishing complaint processes, consultation mechanisms and customer charters. They provide confidence that the licence requirements are being met and that the quarterly reports provided by the licence holder are accurate and supported by appropriate systems.

Licence holders must undergo audits every 24 months. They are conducted by independent experts approved by the Water Coordinator but paid for by the licence holder and examine the effectiveness of measures taken to maintain any

quality and performance standards referred to in the licence.

Of the 30 organisations licensed by the Office, four have so far undergone audits. The first operational audit of a licence holder was conducted in December 1997 on South West Irrigation, a farmers' cooperative providing irrigation services at Harvey, south of Perth. The Water Corporation's first operational audit was conducted in 1998 and Aqwest and the Busselton Water Board have recently provided their audit reports.

The audits are comprehensive and thoroughly test the licence holders' systems and processes. As an example, the audit of the Water Corporation by Ernst and Young in conjunction with Halpern Glick Maunsell, took three months. The auditors visited regional locations throughout the State, identified key risks, tested business systems and assessed the Corporation's compliance with the licence requirements.

The Office has been very pleased with the positive findings of the audits so far and has also been impressed with licence holders' readiness to act and rectify any non-compliances identified.

The audit reports are public documents and are available by contacting the Office of Water Regulation on (08) 9213 0100.

Contact Dr Brian Martin
Office of Water Regulation WA
08 9213 0100

Access to gas pipelines

Office of Gas Access Regulation

Following enactment of the *Gas Pipelines Access (WA) Act 1998* on 9 February 1999, Dr Ken Michael AM was appointed the acting Gas Pipelines Access Regulator on 23 February 1999. Dr Michael was appointed to the position on a permanent basis in June 1999.

To achieve maximum administrative efficiency, the Office of Gas Access Regulation (*Off*GAR) was established to provide secretarial services to both the Regulator and the Arbitrator. A single first point of contact on all matters relating to the regulation of access to gas pipelines was seen as the most appropriate way to service industry and other interested parties.

*Off*GAR is a small agency with a part-time Regulator plus five full time staff. The Regulator is also the Agency's Chief Executive Officer. The Office of Energy (WA) provides administrative support, including the provision of a Principal Accounting Officer, certifying officers and human resources support. Under the Act, *Off*GAR is also to make appropriate use of the expertise of the Director of Energy Safety in relation to safety or technical standards in the gas supply industry.

The *Off*GAR Secretariat is managed by an Executive Director responsible to the Regulator. After acting in the position for a period, Mr Peter Kolf was confirmed as the Executive Director of *Off*GAR in June 1999.

Being a small agency dealing with a range of complex financial, legal, regulatory and technical matters, *Off*GAR relies on services and advice from consultants. The need for specialist and support services from consultants will be particularly important in the next 12 months when access arrangements for the main gas pipelines and gas pipeline systems in Western Australia are to be approved.

Approval of access arrangements

The principal function of the Regulator is to approve the terms and conditions, including price of access, to gas pipelines and gas pipeline systems. There are five main access arrangements to be approved in Western Australia over the next 12 months. Extensive public consultation is involved in this approval process. The main pipelines and pipeline systems for which access arrangements are to be approved are listed in Table 1 below.

Table 1

Pipelines and pipeline systems for which access arrangements are to be lodged within the next 12 months

Pipeline	Owner/operator	Required lodgment date
Parmelia Pipeline	CMS Gas Trasmission Australia	Lodged on 7 May 1999
Mid and South West Gas Distribution System	AlintaGas	November 1999
Griffin (PL19) to Dampier to Bunbury Natural Gas Pipeline	SAGASCO SE P/L	August 1999
Dampier to Bunbury Natural Gas Pipeline	Epic Energy	November 1999
Goldfields Gas Pipeline	Goldfields Gas Transmission	November 1999

On 7 May 1999 CMS Gas Transmission of Australia lodged its proposed Access Arrangement and Access Arrangement Information for the Parmelia Pipeline. The Parmelia Pipeline extends from Dongara in the Perth Basin to Pinjarra in the South West. This is the first access arrangement to be considered by the Western Australian Regulator.

The proposed access arrangement has been made available for public consultation. The closing date for lodging submissions with the Regulator was 5 July 1999. Printed copies of the proposed access arrangement and access arrangement information for the Parmelia Pipeline and submissions from interested parties are available from OffGAR. In addition, electronic copies can be downloaded from OffGAR's web page (www.offgar.wa.gov.au) on the Internet.

Regulatory policy

Having met with a range of pipeline industry representatives and other interested parties, the Regulator has had the opportunity to consider the general approach to gas access regulation to be adopted in the State. In general, the approach being developed has the following features:

- informal discussion, such as prior to the lodgment of proposed access arrangements, is encouraged to assist pipeline service providers in submitting documents that comply with the legislation;
- it is intended that matters of general interest raised during the regulatory process would be made publicly available;
- OffGAR will publish discussion papers and hold forums on matters of interest and relevance to the regulation of access to gas pipelines;
- while the independence of the Regulator will be preserved, comments on any matters at any time are welcomed;
- a website is maintained to provide up to date information including a public register of access arrangements and to provide interested parties with the ability to submit comments via the Internet;
- OffGAR is not a policy agency, but recognises the need to express views on regulatory processes where appropriate; and
- the need to balance the various interests with the best possible outcome for Western Australia is clearly recognised.

New address

OffGAR has relocated to new permanent offices, the address and other details for which are as follows:

Office of Gas Access Regulation
Level 6
Governor Stirling Tower
197 St Georges Terrace
Perth WA 6000

PO Box 8469
Perth Business Centre WA 6849

General Number 61 8 9213 1900
Fax 61 8 9213 1999
Dr Ken Michael 61 8 9213 1901
Mr Peter Kolf 61 8 9213 1902

Contact Peter Kolf OffGAR
08 9213 1902

New South Wales

Recent developments — Independent Pricing and Regulatory Tribunal

Electricity

A report to the Premier under s. 12A of the IPART Act has recently been released by the Tribunal. It focuses on the proposed five year revenue paths for the six government-owned distribution network service providers and their associated retailers. The Tribunal also addressed transmission, even though regulatory responsibility is to pass to the ACCC. The Tribunal has formed its views about appropriate revenue paths for the DNSPs with reference to both the National Electricity Code and s. 15(1) of the IPART Act.

The key outcomes of the report are these.

- If implemented, the Tribunal's proposals will result in real price reductions for distribution services of 16 per cent on average over the next five years. Due to greater volumes and more rapid growth, customers of metropolitan DNSPs will benefit on average from real reductions of around 20 per cent. Because rural DNSPs operate in a higher cost environment their customers will not enjoy price reductions but, on average, price increases will be limited in line with the CPI.
- The Tribunal recommends that a real pre tax rate of return of 7.5 per cent apply to TransGrid, EnergyAustralia, Integral Energy, NorthPower and Great Southern Energy. The Tribunal recommends that a real pre tax rate of return of 7.75 per cent should apply to Advance Energy and Australian Inland Energy. The difference in the proposed rates of return reflects differences in the assessed risk factors for the DNSPs. These real pre tax rates of return deliver nominal post tax returns on equity of approximately 11–12 per cent.
- The Tribunal is concerned about the ongoing protection of franchise retail customers beyond the end of 2000. Although the Tribunal will continue to regulate retail prices under the IPART Act until December 2000, it lacks the legislative power to regulate retail prices after that date. The code does not provide IPART with

powers to regulate retail electricity prices, potentially leaving unprotected those customers who are not able to properly benefit from competition.

- The Tribunal strongly recommends that the Government develop appropriate policy measures to deal with contestability and customer protection. This will require IPART to have appropriate powers to regulate prices and other terms and conditions for customers not able to participate in a genuinely competitive market for electricity services.

Gas

The Tribunal is at various stages in the consideration of access arrangements (under the national gas code) and tariffs (under the NSW Gas Supply Act) for the three gas distribution networks in NSW:

- AGLGN Network (Sydney, Newcastle, Wollongong, Goulburn etc.);
- GSN network (Wagga Wagga); and
- AGC network (Albury and Moana).

AGLGN network access

Public hearings were held in May 1995 and a draft decision is expected to be released during the third quarter of 1999. The current access agreement made under the NSW Gas Supply Act has been extended by regulation to allow the Tribunal to fulfil all of the requirements for a decision on an access arrangement under the National Gas Code.

Consideration of tariffs will follow completion of the access arrangement.

GSN network

A final decision on the GSN Access Arrangement was released in March 1999, which required GSN to make various changes to the arrangement, including factors affecting rate of return, value of the initial capital base, depreciation, reference tariffs and other factors.

GSN provided the Tribunal with a revised arrangement that did not incorporate all of the changes in the final decision. Shortly thereafter GSN applied to the Australian Competition Tribunal for a review of the Tribunal's decision.

At a preliminary hearing of the Tribunal on 20 May 1999 GSN advised that it would not proceed with the application for review.

A final arrangement will be issued in the near future. The Tribunal will consider tariff issues now that the access arrangement has been finalised.

AGL network

A draft decision will be released for comments in early July 1999. A final decision will be released after consideration of comments.

Tariff issues will be considered after finalisation of the access arrangement.

Transport

Public transport fares

The Tribunal recently released its determinations for fares for CityRail services and STA's buses and ferries from August 1999. Both CityRail and STA requested significant fare increases to reduce financial dependence on taxpayers, and contribute to the financing of additional services and higher customer service standards. Taxpayers currently fund around 60 per cent of the total costs of CityRail services.

The Tribunal concluded that it is fair and appropriate that public transport passengers make a suitable contribution to the cost of these services and service improvements. Fare increases averaging 13.8 per cent for CityRail services were approved, with no fare increasing by more than 60 cents a journey and most fares increasing by 40 cents a journey or less.

These increases implements the Tribunal's 1996 recommendations on cost recovery levels for CityRail and makes allowance for expenditure on increased service levels. They will allow CityRail to continue to pursue service improvement initiatives, particularly in relation to passenger safety.

The Tribunal announced a Customer Charter which will set out key CityRail service performance indicators. The extent of any future fare increases will be dependent on the demonstration of further improvements in passenger service levels across a range of relevant customer service indicators and a clearer portrayal of cost levels, cost drivers, and efficient costs.

For STA, the Tribunal determined a 7.0 per cent increase in fares to achieve cost recovery of the efficient costs of Sydney Buses and improve cost recovery levels for Sydney Ferries and Newcastle services. Future increases will also depend on STA developing customer service indicators and achieving an improving trend in those indicators.

Reviews of rail safety and rail access issues

Reports of these reviews were released in March and April 1999. The Rail Safety review made recommendations on the methodology for the calculation and distribution of accreditation costs for rail safety that are met by the participants in the rail industry. The Rail Access review made recommendations on appropriate asset valuation and depreciation methodologies and the rate of return on the Rail Access Corporation's assets that are used in the determination of prices for access to the NSW rail network.

Review of taxi cabs and hire cars

This review is ongoing, with a draft report planned for release in August 1999.

Water

Urban water

Annual determinations for Gosford and Wyong were made to extend the three year price paths for a further year with prices remaining unchanged. Work has commenced on a concurrent review of medium term price paths for the following urban water agencies to apply from July 2000:

- Sydney Water Corporation;
- Hunter Water Corporation; and
- Gosford and Wyong Councils

To assist with these reviews a consultancy is currently considering the basis of pricing of developer charges by these agencies.

Bulk water

Work is commencing on the review of the current two-year price path for bulk water services throughout NSW.

Other activities

Local government development fees

Reports have been released on competitive neutrality in pricing and miscellaneous fees. Further analysis of council costs to assist in setting indicative fees for development applications is proceeding. The last report on these fees is planned for release in September 1999.

Sydney Catchment Authority

The Sydney Catchment Authority has recently been created to cover the provision of bulk water to Sydney Water Corporation. IPART is assisting with the development of arrangements and licence provisions between the two agencies.

Assistance with price regulation in the ACT

The IPART Secretariat has assisted the Independent Pricing and Regulatory Commission (IPARC) for the ACT in the preparation of a medium term price path for ACTEW's electricity and water services, issued in May 1999.

It is also assisting IPARC in consideration of an access arrangement under the Natural Gas Code for AGLGN's gas network in the ACT and surrounding areas.

Contact John Dulley IPART
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Tasmania

Office of the Tasmanian Electricity Regulator

The regulatory structure in Tasmania is approaching 12 months in operation as a fully independent scheme.

Since the last report the Regulator has addressed a number of issues.

Code administration

The Tasmanian Electricity Code provides for independent institutional arrangements to determine certain issues and to advise the Regulator.

- Reliability and Network Planning Panel — has responsibility to determine network security and reliability standards and assessing network augmentation proposals. The panel has issued a discussion paper on assessing transmission network augmentation proposals. The paper proposes a 'market benefits' test similar to that put forward by the ACCC.
- Code Change Panel — this Panel has been established and has commenced dealing with some 90 proposed code changes at its first meeting.
  The decision making framework for the panel is embodied in the terms of reference agreed with the Regulator and available on the Regulator's website.

Licences

The Regulator has issued licences to the transmission and distribution network operators and the retailer.

At present the Hydro-Electric Corporation has a 'presumptive licence' to undertake such operations in the Tasmanian electricity supply industry as it was lawfully undertaking prior to the commencement of the *Electricity Supply Industry Restructuring (Savings and Transitional Provisions) Act 1995.*

The Regulator is of the view that it is not appropriate at this time to issue a licence to the HEC. This takes account of a number of factors including:

- there is currently a Review of Generation Structure being undertaken by the Tasmanian Government; and
- there is also a review of wholesale pricing in the Tasmanian electricity market.

The results of both these reviews are likely to have significant regulatory implications.

Consequently the Regulator has prepared an Interim Agreement which reflects in large part the obligations imposed on other electricity entities by their licences.

The fundamental elements of other licences apply to the HEC:

- the provision of relevant management plans to the Regulator;
- compliance with the Tasmanian Electricity Code;
- payment of fees and charges;
- reporting obligations; and
- the provision of such assistance as the Regulator may reasonably require in the development or review of standards and procedures.

The approach taken in all licences and this Interim Agreement has been 'light handed' in that the Regulator

has not sought to intervene in the day-to-day management of the entities. Rather, he seeks to ensure that all stakeholders are provided with sufficient information to properly assess the performance of the entities in meeting their regulatory obligations.

There is a reserve power of direction for the Regulator in the event that there is evidence of non-compliance or that the licence provisions do not adequately constrain the exercise of market power.

An essential feature of the licence approach is the provision of management plans to the Regulator. These outline the procedures, practices and strategies for managing and auditing various compliance obligations, e.g. vegetation management, service standards, asset management and legal compliance.

Industry structure and organisation

The government has, through the Department of Treasury and Finance, engaged consultancies to advise on wholesale pricing in the Tasmanian electricity market. The objective of this is provide a NEM-consistent pricing model recognising that Tasmania has a dominant hydro generator and that Basslink will be constrained.

There is also a structural review of generation being undertaken to meet competition policy obligations and to ensure that the most appropriate generation structure is developed for Tasmania taking into account possible NEM participation.

Legislation

The *Electricity – National Scheme (Tasmania) Act 1999* was introduced and passed (but not proclaimed) in April this year. This legislation provides for the application of *National Electricity Law* in Tasmania.

Electricity prices investigation

The Regulator is conducting an investigation to determine the maximum prices to be charged for monopoly services provided by the Tasmanian electricity entities for the three years from 1 January 2000. The services which have been declared to be 'monopoly services' and which are to be subject to the Regulator's determination are:

- electricity generation for tariff sales on mainland Tasmania, provided by the HEC;
- system control functions (including the procurement of ancillary services), provided by the HEC;
- electricity transmission on mainland Tasmania provided by Transend Networks Pty Ltd;
- electricity distribution on mainland Tasmania provided by Aurora Energy Pty Ltd;
- electricity retailing to tariff customers on mainland Tasmanian provided by Aurora Energy Pty Ltd; and
- retail supply for residents of King Island and Flinders Island.

An issues paper documenting the background to the investigation, the major issues to be addressed and the principal matters raised in preliminary submissions from the electricity entities was released in April 1999. Copies of the paper, submissions and consultant's reports on network asset valuations are available from the Regulator's web site at: http://www.electricityregulator.tas. gov.au/

The terms of reference for the investigation note the Government's intention to introduce competition in electricity retailing in Tasmania. It notes that a detailed implementation timetable is proposed to be developed in the coming months, and it is envisaged that contestability will be introduced around six months prior to the commissioning of Basslink.

Government Prices Oversight Commission

Competitive neutrality

Since the Competitive Neutrality Complaints Mechanism Guidelines were released in February 1999, one formal complaint has been received by the Government Prices Oversight Commission. The complainant raised three issues in relation to the Printing Authority of Tasmania, the payment of an operating subsidy by the Government during the period 1992–93 to 1995–96, the requirement imposed by Government that Departments obtain a written quote from the Printing Authority for work over $10 000 and the method of calculation of rent payable on the Crown owned premises occupied by the Printing Authority. The Commissioner determined that, as the payment of the subsidy had ceased at the time competitive neutrality was implemented for all corporatised Government business enterprises, no further action was required on this matter. The second matter was a policy procurement matter and was not a competitive neutrality issue. However, the third matter raised is currently the subject of investigation.

A further two informal complaints matters have been raised with the Commission. One relates to the community information technology access centres that have been established to promote computer literacy and access for communities in regional, rural and remote centres around the State. These centres are managed by community-based incorporated not-for profit entities. The key issue relates to the pricing of Internet and email access by tourists using these centres. The second issue relates to local government owned leisure and fitness centres, specifically in relation to pool entry fee policies.

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Newsbriefs

Hawaii — Update on electricity competition

On December 30, 1996, the Hawaii Public Utilities Commission issued Order Number 15285, opening docket number 96-1493, *instituting a Proceeding on Electric Competition, Including an Investigation of the Electric Utility Infrastructure in the State of Hawaii*.

In its order, the Commission briefly reviewed the efforts to establish electricity competition on the mainland initiated by orders of the Federal Energy Regulatory Commission (FERC), the federal agency that oversees, among other things, the interstate commerce of electricity. Since Hawaii utilities do not, and physically cannot, engage in interstate commerce, the FERC rules did not directly affect Hawaii. However, as the Commission noted:

> Although Hawaii's stand-alone energy systems are a contract to the interconnected systems of the contiguous states, and the effects of federal plans and proposals are uncertain, we also recognise the need to prepare for a competitive electric industry environment in the State of Hawaii.
>
> In the transition to a competitive electric industry in Hawaii, competition and industry restructuring are expected to radically change the manner in which electricity services are planned, priced, and provided. Competitive issues are being raised by electric industry shareholders and by the State legislature. Furthermore, pending initiatives in the United States Congress to mandate retail competition could significantly impact the State's energy system and entire energy community.
>
> In light of the above, a proceeding is in order to examine the issues related to the introduction of competition in the electric industry in the State of Hawaii. A thorough examination of the issues will help the Commission determine the potential impacts of competition, the feasibility of various options, and the appropriate extent to which competition should be encourage for the overall benefit of all consumers. Our foremost concern is to ensure the long-term efficiency and reliability of the State's energy systems and the availability of safe, affordable, and equitable electricity services to Hawaii's citizens.

The Commission made the Consumer Advocate and the four electric utilities parties to the docket and invited all interested electric service providers, organisations, business groups, and community groups to participate in the docket. To initiate the discussion, the Commission proposed a set of 12 preliminary issues and questions to be addressed.

On 6 and 7 January 1997 a two-day Informational Briefing on Contemporary Issues in Electrical Regulation was held in the Hawaii State Capital Auditorium. It was co-sponsored by the co-Chairs of the Senate Consumer Protection Committee and State of Hawaii Department of Business, Economic Development and Tourism. The informational briefing examined the implications of deregulation and increased competition in the electric utility industry for Hawaii.

The Commission issued Order No. 15371, on February 20 1997, which granted intervention status to the following additional parties:

- Waimana Enterprises;
- the US Department of Defence;
- the State of Hawaii Department of Business, Economic Development and Tourism;
- GTE Hawaiian Telephone;
- Hawaii Renewable Energy Alliance;
- Puna Geothermal Venture;
- Life of the Land;
- International Brotherhood of Electrical Workers Local 1260;
- County of Maui;
- County of Kauai;
- County of Hawaii;
- AES Hawaii; and
- Enserch Development Corporation.

The Association for Competition in Electricity was given participant status without intervention. The parties were ordered to provide the Commission with pre-hearing conference submissions covering a number of issues specified in the order by 31 March 1997.

The parties provided their pre-hearing conference submissions. On May 28-29 1997, the parties participated in two days of discussion on electricity competition sponsored by the Public Utilities Commission. A variety of experts made presentations on activities on the mainland.

Over the next year the parties, meeting as the Competition Collaborative, attempted to discuss and narrow the issues, and, if possible, to reach consensus. Due to the diverse views and interests involved, reaching consensus proved impossible. As a result, the Collaborative ultimately decided to

provide the Commission with a collection of position papers produced by each of the parties. Initial drafts were discussed at a meeting at the end of June 1998. Many parties provided comments on other parties' papers for their consideration. The papers were finalised and provided to the Commission on October 19 1998.

At this writing, in May 1999, the Commission has not taken further action.

Contact Maurice Kaya, Hawaii Dep't Business, economic Development and Tourism, 0011-1-808-587-3812 or e-mail: mkaya@pixi.com

Best Practice Utility Regulation paper

What are the elements that go to make a good utility regulator? What represents best practice in regulation and how should regulators manage their relationship with utilities?

These issues are the focus of a paper recently endorsed by the Utility Regulators Forum. The paper, *Best Practice Utility Regulation*, identifies the behaviours and characteristics that represent best practice.

The paper was the outcome of a national consultation process and is the first product from a number of working groups formed by the Forum in November 1997 to give practical effects to its objectives of sharing of information and fostering understanding of issues and concepts faced by regulators in similar industries.

The WA Office of Water Regulation was the lead agency for the working group that produced the paper.

The paper brings together the views of utilities, regulators and consumer representatives. The consultation process involved written submissions, a literature search and a full day workshop held in Perth in October 1998 with participants from utilities, consumer representatives and regulators from around Australia.

Copies of are available from Katrina Owers, ACCC, 03 9290 1915.

New Zealand — Electricity developments

Electricity Line Company Controls introduced in parliament

Electricity Line companies taking advantage of their monopoly positions will face strict controls under legislation recently introduced in the New Zealand Parliament.

The Commerce (Controlled Goods or Services) Amendment Bill should ensure that benefits arising from other parts of the electricity reforms — such as the introduction of competition in electricity generation and retail — flow through to consumers.

The Bill gives the Commerce Commission the power to impose price and revenue caps on electricity line companies which are overcharging consumers. Enterprise and Commerce Minister Mr Max Bradford said the controls were needed because the companies which delivered electricity to retailing companies were monopolies and had only weak incentives to minimise costs and prices.

> The reforms are already delivering benefits to businesses and consumers. Wholesale power prices have fallen two-thirds since the end of March and retail prices have fallen for consumers in major centres over the past year.
>
> But it has become obvious that many companies have used the reforms as an excuse to increase their profit, while others are simply increasing their prices because they think they can get away with it.
>
> The aim is to ensure that electricity lines companies are put in an environment similar to other parts of the industry, where there are strong incentives to be efficient.

Mr Bradford said all OECD countries that had deregulated their electricity industries used some form of price control on their lines businesses. The New Zealand Government announced more than a year ago that it would be imposing light-handed regulation on line companies.

However, the behaviour of some line companies in recent weeks has showed a softer information disclosure regime and the threat of price control is not enough to do the job, he said. Line charges should be falling because of efficiency gains in line businesses, the effect of increased demand and line companies' lower costs of doing business following the sale of meters, call centres, billing and load control.

The Bill introduced in the New Zealand Parliament

- updates the price control provisions of the Commerce Act;
- gives the Commerce Commission increased flexibility in administering price control by providing powers for the Commission to use incentive-based price control or revenue caps such as CPI-X and associated service quality standards;
- places all electricity line businesses under price or revenue control;
- includes the Government-owned national grid company Transpower; and

- requires the Commission to implement the new regime for the largest line businesses by 31 December this year, for the remaining local line businesses by 31 March next year and for Transpower by 30 June next year.

The Bill is under consideration by a Parliamentary select committee and is to be reported back to Parliament by the end of June 1999.

Electricity Consumers' Information Service

Help is on the way for consumers trying to get the cheapest power deal, Enterprise and Commerce Minister Max Bradford announced on 22 June 1999.

Mr Bradford announced that the Consumers' Institute had won the contract to establish an electricity consumers' information service. The service, which will be called Consumer PowerSwitch, will be launched on 29 July and will operate until at least 31 December 2000.

Information will be available through the Internet and by telephone.

Consumers using the service will be asked to submit specific information relating to their location and electricity usage. A calculator will automatically determine the 'best retailer' based on the information provided. The calculation will not be based solely on price. Other considerations, such as tariffs and onerous terms and conditions in contracts will be made clear to consumers.

Consumers will receive a list of competing retailers, sorted from most expensive to least expensive. Where there is no competition between electricity retailers, consumers will be able to obtain information about the different ways in which power prices are structured and how they can use different power price options in their area to minimise their power bill.

Mr Bradford said the new service would help many consumers exercise the greater choice of retailer provided by the power reforms. Through having better information, consumers could play a stronger role in keeping power prices down by forcing retailers to remain competitive.

> Under the reforms 55 per cent or almost one million electricity consumers are paying or, through switching companies, can pay lower power prices than they were paying a year ago.
>
> This service will make switching easier and in doing so help consumers have more in the bank at the end of the week.

Consumers' Institute chief executive David Russell said today he was absolutely delighted to be in a position to offer this service to consumers in New Zealand.

There will be a small cost recovery charge for non-Internet users. However the institute is discussing with Citizens Advice Bureau the possibility of consumers obtaining information through their local CAB.

The cost of establishing the service is $70 000 (excluding GST), $50 000 of which is being contributed by the Ministry of Commerce.

For further information, please see the Ministry of Commerce web page at http://www.moc.govt.nz

Queensland

Queensland Rail Draft Undertaking

Queensland Rail has lodged with the Queensland Competition Authority (QCA) a draft undertaking covering certain services relating to the use of the rail transportation infrastructure it owns. The QCA is considering whether to approve, or to refuse to approve, the undertaking in accordance with the requirements of the *Queensland Competition Authority Act 1997*.

The publication by the QCA of its Request for Comments paper in April 1999 marked the commencement of the formal public consultation process associated with the Authority's assessment of Queensland Rail's draft undertaking. The initial stage of the consultation process has now concluded, the Authority receiving 16 public submissions in response to the paper.

In formulating a draft determination on the draft undertaking, the QCA intends to engage in further consultation on significant issues raised in the submissions. In addition, the Authority has yet to receive from Queensland Rail a number of documents associated with the undertaking, including ring fencing guidelines and scheduling and train control protocols, which the Authority will need to consult on. These factors will affect the timing of the release of the Authority's draft determination.

The QCA will release further papers on significant issues arising from the quantification of Queensland Rail's below rail access charges. The first paper, *Asset Valuation, Depreciation and Rate of Return*, was released in late May, with consultation scheduled to conclude on 9 July 1999.

Copies of all papers released by the QCA with respect to its consideration of Queensland Rail's draft undertaking, as well as public submissions received in response to the papers, are available on the Authority's web page www.qca.org.au.

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Produced by the ACCC