Contents

1 ACCC guideline addresses concerns about regulation of greenfields pipelines
1 Overview of the draft greenfields guideline
3 National developments
3 Telecommunications
4 Electricity
5 Gas
7 Transport Prices Oversight
9 NCC
9 State developments
9 Western Australia
11 South Australia
14 New South Wales
15 ACT
16 Tasmania
18 Queensland
19 Northern Territory
20 Contacts

network

etwork national developments telecommunications gas electricity airports rail transport p
cc state developments victoria western australia south australia act new south wales tasmania queensland northern territory contacts ncc
as electricity airports rail transport prices ncc state developments victoria western a ISSUE 11, OCTOBER 2002 ISSN 1445-6044 telecommunic

A publication of the Utility Regulators Forum

11

ACCC guideline addresses concerns about regulation of greenfields pipelines

By Professor Allan Fels, Chairman, ACCC

While the gas industry has raised a number of legitimate concerns regarding new investment in pipeline infrastructure, the ACCC believes those concerns can be accommodated within the current regulatory framework. ACCC Chairman Professor Allan Fels explains how the draft greenfields guideline creates greater certainty for industry about greenfield investments

In the mid-1990s the Council of Australian Governments (COAG) agreed to several wide-ranging reforms to increase competition in the utilities sector.

At the time, this sector was characterised by government-owned entities and in some cases vertically integrated monopolies. The intention was to promote competition and increase efficiency through structural reform of public monopolies and by establishing a national access regime covering 'essential facilities'.

While we have seen steady investment in pipeline infrastructure in the gas industry since the introduction of these reforms, there are still concerns about the ability of the regulatory framework to deal with the risks presented by new or greenfields pipelines.

The ACCC accepts that greenfields projects will generally face greater uncertainties than established pipelines and this can act as a disincentive to investment. It has therefore developed the *Draft greenfields guideline for natural gas transmission pipelines* to create greater certainty and transparency in the operation of the regulatory framework.

Overview of the draft greenfields guideline

The draft guideline:

- addresses the perceptions of regulatory risk discussed below
- demonstrates the flexibility of the regulatory framework
- identifies methods for dealing with project-specific risks
- assists prospective service providers to evaluate the likely regulatory outcomes for potential or proposed greenfields projects.

The draft guideline is not intended to be exhaustive and the ACCC is receptive to considering alternative methods, provided that any proposed approach is consistent with the principles of the gas code or the Trade Practices Act.

The ACCC's perception is that the gas code offers a degree of flexibility that is not yet fully realised by the pipeline industry. Service providers have considerable scope to tailor the regulatory mechanism to their needs.

It should be noted that regulation of gas transmission infrastructure is not automatic. A number of tests must be

satisfied before a prospective pipeline falls within the regulatory framework. The ACCC is only concerned with pipelines that meet the coverage tests under the gas code, are subject to an access undertaking or declaration under Part IIIA of the TPA or voluntarily seek to be regulated.

While prospective service providers are encouraged to consult with the ACCC when developing an access proposal, it is ultimately the service provider's responsibility to design a proposal that best meets its needs and circumstances, while complying with the principles of the national access regime.

The challenge for the ACCC is to assess access regime proposals to ensure they establish fair and reasonable conditions of access for both service providers and users in a manner that preserves the service provider's economic incentives to fully utilise its assets and develop its business.

The risks associated with greenfields investment

It was noted earlier that greenfields pipeline projects generally face greater uncertainties and risks than established pipelines. These risks fall into four broad categories:

- financial
- construction
- operational
- demand.

Financial risks

The ACCC recognises that in the construction and operational phases a pipeline development will face financial risks, like those associated with procuring materials in a foreign currency. To minimise these risks a pipeline may use appropriate hedging or swaps arrangements.

The regulatory regime recognises these. For example, risks by allowing costs incurred in managing financial risk in the construction phase to be capitalised and reflected in the capital base.

Construction risks

Any construction contract carries risks in the planning and construction phase. For greenfields pipelines subject to the regulatory regime, the code provides protection by allowing the actual cost of construction to be the initial capital base.

Operational risks

Operational risks apply to all pipelines and the ACCC recognises that once established, the operational risk profile of a greenfields pipeline is unlikely to differ materially from an established pipeline and should be treated in the same way.

Costs that can be identified and quantified by a service provider and attributed to specific risk mitigation can be included in the operations and maintenance costs of the pipeline. Economic depreciation also effectively allows for the carry-forward of losses in the early years of operation and reference tariffs based on forecast volumes substantially insulate the pipeliner from volume risks.

Demand risks

The ACCC recognises the inherent uncertainties associated with greenfields pipelines and forecasting demand volumes, likely market growth factors and realisable revenues.

The level of demand risk depends on the extent to which foundation contracts underpin a greenfields project—a new pipeline that is supplying gas to a new or immature market faces greater uncertainty regarding future demand than a pipeline that is fully contracted and supplying to a well-established market.

The ACCC believes the effect of demand risks on regulatory revenue can be mitigated through careful information analysis and the design of the regulatory arrangements. For example, demand scenarios could be used to determine an expected demand forecast—such information would not be unlike the information required as part of the due diligence assessment of the project. An appropriate mechanism could then allow any under-recoveries in the early years of an access regime to be subsequently recouped when demand grows.

The code allows the regulator to consider an access arrangement period of any length. However, when the access arrangement period is greater than five years the code requires the regulator to consider whether mechanisms should be included in case the risk of forecasts on which the terms of an access arrangements were based and approved were incorrect.[1]

By allowing for a longer access arrangement period, and in conjunction with any benefit-sharing mechanism, the service provider is able to retain for a longer period any higher returns it earns from outperforming its forecasts. In effect, the business has the potential to earn, and retain for an extended period, a rate of return higher than the benchmark set by the ACCC. The ACCC considers that a longer period provides a greater incentive to the service provider to improve its performance and build its markets and the opportunity to reap more of the project's blue sky potential. Under the code, in the event that expected returns are not realised (for example if substantial discounting was required or forecast volumes were not being realised), service providers are also able to seek a review at any time.[2]

A major concern of the pipeline industry seems to be that the regulatory framework will operate in a non-symmetric fashion. For example, if the regulator were to observe the current demand levels and then revise reference tariffs on the basis of these more certain demand forecasts. When these new forecasts are higher than the average of the forecasts proposed initially, this could imply a reduction in tariffs relative to what would have been reasonably expected at the time of commitment to the pipeline proposal.

The draft guideline seeks to confirm that this is **not** the proposed regulatory framework that the ACCC would apply to greenfields investments. Instead, the forecast probabilistic scenarios would be maintained for the timeframe over which they were made. Beyond that point it would be expected that market demand would have stabilised at a level which would make the application of the standard approach to regulation for mature pipelines more appropriate. At this point the transition would not compromise returns as it would be taken into account when assessing prospective ex ante returns under each scenario.

Other features of the guideline

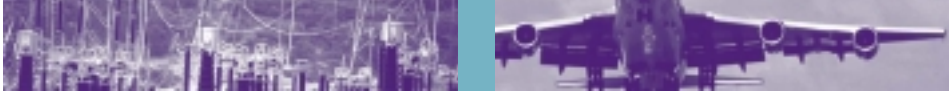
The guideline also:

- Notes that Australian regulators use **forecast volumes** to calculate tariffs, hence shifting volume risk to users. In the US **capacity** is used to calculate tariffs, hence shifting volume risk to the service provider.
- References three consultancies that the ACCC undertook to assist it in its development of the guideline, which are available on the ACCC's website.

[1] Refer code section 3.18.

[2] Code section 2.28.

network national developments telecommunications gas electricity airports rail transport prices ncc state developments network victoria western state developments victoria western australia network national developments telecommunications network gas electricity airports rail transport prices oversight



- Notes that the pipeline operator has the right to unilaterally seek a review at any time of an access arrangement if their circumstances materially change. The regulator on the other hand cannot instigate a review.
- Provides worked examples on benefit sharing, capital costs and treatment of demand to assist pipeline proponents understand the qualitative discussion in the guideline.

Conclusion

While industry has raised a number of legitimate concerns about new investment in pipeline infrastructure, the ACCC believes those concerns can be accommodated within the regulatory framework.

I am hopeful the draft guideline will assist all parties involved in the development of new pipelines to have a better understanding of the flexibility provided by the current regulatory regime and how the regulatory regime will apply to their investment.

Before finalising the draft guideline the ACCC will hold a public forum at which interested parties can raise any issues or make comments on the guideline. Details of the public forum will be publicised in the major daily press. The draft guideline and related consultancies are available on the ACCC's website at <http://www.accc.gov.au/gas>.

I look forward to an informed debate about the regulatory options and the way forward for the gas energy sectors and indeed all the utility sectors.

Telecommunications

Regulation review

The government announced its response to the Productivity Commission (PC) report on telecommunications competition regulation in April 2002. It includes proposals to remove merits appeals on Commission arbitration determinations and develop an accounting separation for Telstra. The ACCC strongly supports the government's proposed changes to the current regulatory regime.

Deregulation of local call services in major capital cities

In June 2000 Telstra applied to the ACCC for an individual exemption from its standard access obligations on the supply of the local carriage service (LCS) in the central business districts (CBDs) of Sydney, Melbourne, Brisbane, Adelaide and Perth. The ACCC made a draft decision in September 2001 to grant a class exemption to Telstra, and other carriers, in the areas specified in the application. The ACCC invited public comment on the draft decision.

In July 2002 the ACCC announced that it would remove access regulation of wholesale local calls (the local carriage service or LCS) in aforementioned CBDs. The ACCC's decision is reflected in two exemptions from the standard access obligations relating to the LCS. The first is an individual exemption that relates only to Telstra and will not take effect for one year. There are several conditions attached regarding the provision of certain information to the Commission for a period of two years from when the exemption takes effect.

The second is a class exemption that applies to all carriers and carriage service providers other than Telstra. It is to take effect from the time it is gazetted and is not subject to any conditions.

Consistent pricing principles for mobile services

The ACCC issued a draft report in June 2002 recommending pricing principles to cover GSM and CDMA services, the two principal mobile technologies used in Australia. The current pricing principles only cover GSM, but the ACCC considers that CDMA and GSM services are close substitutes. This extension will ensure regulatory consistency across mobile technologies and provide regulatory certainty to the industry. The ACCC has sought submissions on its draft paper and expects to issue its final pricing principles in August 2002.

The ACCC will review these pricing principles and the mobile services market generally in 2003.

Draft decision to regulate line sharing services

In September 2001 the ACCC commenced an inquiry into whether line sharing (also known as spectrum sharing) should become a declared service and therefore regulated. In April 2002 the ACCC issued a draft decision that it considered the declaration of telecommunications services known as line sharing in the long-term interests of end-users.

Telecommunications access disputes (arbitrations)

The ACCC has two current arbitrations dealing with analogue subscription broadcasting and interim determinations have been made for both. During 2001, of the 28 arbitrations resolved, 23 were because the access provider withdrew the dispute. Another dispute has been withdrawn in 2002. The relevant parties have entered into commercial arrangements regarding the terms and conditions of access to the relevant services.

It is difficult to anticipate the level of access disputes likely to be notified to the ACCC in the future. Many of the access disputes were resolved between the parties after protracted submissions to the ACCC and rulings by the ACCC that significantly narrowed the issues of dispute. In some cases settlement was achieved after the ACCC had issued a draft determination. The ACCC

has consistently warned about the regulatory distortions that are raised as a consequence of full re-arbitration by the Australian Competition Tribunal. The ACCC considers it likely that smaller carriers resolved ongoing arbitrations to gain regulatory certainty and eliminate the possibility of costly appeals.

Contact: Michael Cosgrave
(03) 9290 1914

Electricity

Guidelines for the negotiation of discounts on electricity transmission charges

On 3 May 2002 the ACCC approved the *Guidelines for the negotiation of discounted transmission charges* (the guidelines). The aim of the guidelines is to encourage transmission network service providers (TNSPs) to offer discounts to their customers when they provides a net economic benefit to the market. This should ensure that customers do not:

- leave the network
- decide not to join the network
- decide not to increase their demand for electricity when this would not be in the market's interest.

The guidelines also ensure that other network users are not worse off because of the discount.

The ACCC released a discussion paper containing draft guidelines for public comment on 10 October 2001. The submissions received were considered in developing the final guidelines. The ACCC also took into account issues arising out of an assessment of an application for discount recovery received in accordance with clause 6.5.8(c)(1) of the National Electricity Code (the code).

Specifically, the code permits a TNSP to recover the amount of a discount to a transmission customer's general and/or common service charges from other transmission customers, provided it is satisfied that it can demonstrate that the discount complies with the guidelines. If at subsequent revenue resets the TNSP does not satisfactorily demonstrate that the discount satisfies the guidelines, the ACCC may reduce the TNSP's revenue cap for the next regulatory control period.

The guidelines contain four key guidelines. Under guidelines one and two a TNSP must ensure that the discount is no larger than that necessary to prevent the general and/or common service charges altering the beneficiary's behaviour and that no other network users are worse off because of the discount. Guideline three recognises that there may be costs incurred in negotiating a discount with transmission network customers, therefore there is a safe harbour provision that enables approval of 70 per cent of the amount of a discount, provided that a TNSP agrees to absorb the remaining 30 per cent. Finally, the ACCC has included a fourth guideline dealing with the treatment of pre-existing discounts.

Authorisation of amendments to the National Electricity Code

Dispute resolution arrangements

On 26 July 2001 the ACCC received applications from the National Electricity Code Administrator (NECA) to authorise changes to the code's dispute resolution arrangements.

These changes resulted from a code requirement that NECA review the dispute resolution arrangements. The focus of this review was on the efficacy of the old code provisions.

The changes include:

- clarification of the market participants' role, rights and responsibilities when involved in a code dispute
- the removal of overlap between the roles of the NECA adviser and the dispute resolution panel (DRP)
- the introduction of time limits to ensure disputes are raised and resolved in a timely manner
- a provision for disputes to be resolved that involve more than two market participants

On 5 December 2001 the ACCC issued its draft determination. A pre-determination conference was called and held on 17 January 2002. The issues raised at this conference were addressed in the ACCC's final determination released on 13 March 2002.

In its final determination the ACCC granted conditional authorisation to the proposed changes. The conditions were primarily aimed at improving the transition into the changed dispute resolution arrangements.

The South Australia electricity pricing order

On 1 January 2001 the ACCC commenced regulation of the South Australian transmission network, ElectraNet SA (ElectraNet).

The revenue cap and transmission network prices for ElectraNet are outlined in the South Australian electricity pricing order (EPO). The EPO was established before the privatisation of the electricity assets and therefore, until 1 January 2003, the ACCC's role is limited to administering transmission related functions under the EPO. The ACCC will be not become responsible for setting ElectraNet's revenue cap until 1 January 2003.

The ACCC has three broad responsibilities under the EPO:

- ensure that ElectraNet complies with the initial tariffs specified in the EPO
- assess any application by ElectraNet for altering tariffs or proposing new tariffs
- assess any applications by ElectraNet to pass through additional charges or rebates.

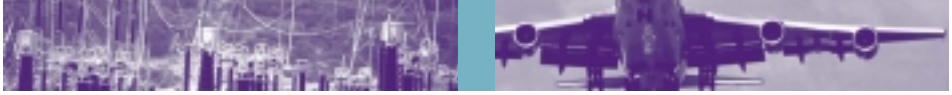
On 3 May 2001 ElectraNet submitted an application to the ACCC on its transmission charge applying from 1 July 2001 to 30 June 2002. This tariff statement breached the re-balancing requirements of the EPO, and ElectraNet was forced to resubmit their annual tariff statement on 6 June 2002. The ACCC approved the new charges in accordance with the process outlined in chapter 6.5 of the EPO.

On 2 July 2002 ElectraNet submitted an application to pass through discounts relating to its regulated transmission charges for 1 July 2002 to 31 December ($7.1 million). The ACCC approved this application.

Authorisation of amendments to the National Electricity Code

Full retail competition—Mk II

On 10 December 2001 the ACCC received applications for authorisation (Nos A90813, A90814 and A90815) of amendments to the National Electricity Code (code) to facilitate the introduction of full retail competition (FRC). The code changes relate to NEMMCOs' powers to determine a 'declared' project and the market fees required to cover costs associated with that project. The supplementary code changes also relate to the processes for collection and transfer of data to facilitate full retail competition. The amendments also allow for the deferral of the recovery of



market fees relating to the introduction of FRC until 1 July 2003.

On 8 May 2002 the ACCC issued its final determination. In its final determination it considers that these code changes will facilitate the smooth transition to full retail contestability in the National Electricity Market and that there will be significant public benefit because of these changes. Deferral of the recovery of market fees to account for the development of systems required for FRC will mean that the costs will be more equitably allocated across customers in all states participating in the NEM likely to introduce FRC.

The supplementary code amendments facilitate the efficient collection and management of market data. The changes also allow automation in the area of discovery and transfer of customer and market data. Without such automation, the potential transfer costs may become a barrier to effective participation in a competitive retail market.

The clarification of NEMMCO's ability to declare a project and determine market fees for such a project will also facilitate a smoother market development process in the future.

Statement of principles for the regulation of transmission revenues information requirements guidelines

On 27 May 1999 the ACCC released its draft statement of principles for the regulation of transmission revenues (regulatory principles). The draft regulatory principles outlined the ACCC's initial views on the information disclosure requirements that it would impose on transmission network service providers (TNSPs). Draft information requirement guidelines were subsequently issued by the ACCC on 9 May 2001 seeking comments from interested parties.

On 5 June 2002 the ACCC released its final information requirements guidelines. Its objective in issuing these guidelines is to reinforce the effectiveness of the regulatory processes by limiting the ability of the TNSPs to extend their monopoly powers from the network business to the contestable parts of the industry. In particular, the Commission is seeking to ensure that regulated activities do not cross-subsidise contestable activities.

TNSPs are required to separate out prescribed and non-prescribed services when performing their regulatory accounting. TNSPs are also required to reasonably allocate costs that are shared between prescribed services and any other activities.

Information provided by the regulated TNSP will form the basis of the ACCC's revenue cap decisions. The ACCC will also use its information-gathering powers to annually monitor the TNSP's compliance with its revenue cap.

This decision can be found on the ACCC website.

Review of technical standards: interim extension of existing derogations

On 15 February 2002 NECA applied to the ACCC for authorisation of an interim extension of certain existing derogations to the National Electricity Code (code). The request was to allow a managed transition by generators to the new arrangements proposed by NECA in its final report on the review of technical standards published on 7 December 2001.

The existing derogations allow the generators to meet different technical standards to those specified in the code. However, the derogations were due to expire on 31 December 2002. NECA argued that it would take some considerable time to finalise and implement code changes arising out of its review.

On 5 June 2002 the ACCC released its final determination granting authorisation to the proposed code changes, with the period of authorisation to expire on 31 December 2004 or 12 months after the revised technical standards are gazetted, whichever occurred first.

This determination can be found on the ACCC website.

Victorian tariff order—regulation of Victorian transmission network revenues

On 1 January 2001 the ACCC commenced regulation of the Victorian transmission network, SPI PowerNet (PowerNet) and the Victorian Energy Network Corporation (VENCorp). The transmission arrangements are unique to Victoria in that PowerNet is the owner of the transmission assets, while VENCorp has responsibilities for the planning and augmentation of the transmission network.

The methodologies for determining the revenues and customer charges for PowerNet and VENCorp are outlined in the Victorian tariff order (VTO). Until 1 January 2003 the ACCC's role is limited to administering transmission related functions under the VTO. The ACCC will be not become responsible for setting PowerNet and VENCorp's revenue requirements under the National Electricity Code (code) until 1 January 2003.

With respect to PowerNet, the ACCC has responsibilities under the VTO to:

- approve PowerNet's proposed charges for prescribed services for customers consistent with the methodology and parameters specified in the VTO (such charges are not to exceed PowerNet's maximum allowable revenue)
- assess any applications by PowerNet to pass through additional charges to customers due to a change in taxes as specified in the VTO.

With respect to VENCorp, the ACCC has responsibilities under the VTO to:

- approve the revenue requirement of VENCorp consistent with the methodologies specified in the VTO
- approve VENCorp's TUoS charges for customers as specified in the VTO methodology.

In accordance with these responsibilities, PowerNet submitted an application on 3 May 2002 for maximum allowable revenue of $129.9 million for the six-month period 1 July to 31 December 2002. This represents a decrease of 4.2 per cent from the previous year on a pro rata basis.

VENCorp submitted an application on 21 May 2002 for a revenue requirement of $258.54 million which represents an increase of about 16 per cent from the previous year. The ACCC is able to make a decision for the 12-month period 1 July 2002 to 30 June 2003 due to the particular interaction of the VTO and the code regarding VENCorp).

The ACCC approved both applications.

Contact: Sebastian Roberts
(03) 9290 1867

Gas

Wallumbilla to Gladstone via Rockhampton pipeline

The ACCC released its final decision on Duke Energy's proposed access arrangement for the Wallumbilla to Gladstone via Rockhampton pipeline (also known as the Queensland gas pipeline) on 1 August 2001. As this pipeline is subject to a Queensland derogation, the ACCC did not have the power to review the reference tariffs and the reference tariff policy.

australia south australia act new south wales tasmania queensland northern territory contacts ncc telecommunications gas electricity airports rail transport prices n
ncc state developments contacts network state developments victoria western australia south australia act new south wales tasmania queensland northern ter

The ACCC did not approve the access arrangement proposed by Duke Energy. In its final decision it outlined the amendments that would have to be made for the access arrangement to be approved.

Duke Energy submitted a revised access arrangement that did not comply with the final decision. Specifically, Duke Energy declined to amend its access arrangement to include specific major events that would trigger an early review of the non-derogated elements of the access arrangement (the ACCC acknowledged that it did not have the power to require an early review of the derogated elements). Consequently, the ACCC was required to draft and approve its own access arrangement, which was issued in November 2001.

Duke appealed the ACCC's final decision to the Australian Competition Tribunal (the tribunal). Duke argued that the derogation set the review dates and therefore the ACCC did not have the power to include in the access arrangement specific major events that would trigger an early review of the non-derogated elements.

On May 2002 the tribunal dismissed Duke's appeal and held that the ACCC retained the power to include a trigger mechanism and review the non-derogated elements of the access arrangement before the derogated review date if the trigger mechanism was activated.

Ballera to Wallumbilla pipeline

The ACCC released its final decision on Epic Energy's proposed access arrangement for the Ballera to Wallumbilla pipeline (also known as the south-west Queensland pipeline) on 28 November 2001. As with Duke Energy's Queensland gas pipeline, the south-west Queensland pipeline is subject to a Queensland derogation which removes the ACCC's power to review the reference tariffs and the reference tariff policy.

The ACCC did not approve the access arrangement proposed by Epic Energy. In its final decision it outlined the amendments that would have to be made for the access arrangement to be approved. Epic Energy submitted a revised access arrangement that did not comply with the final decision. Consequently, the ACCC was required to draft and approve its own access arrangement, which was issued in June 2002. The revised access arrangement included, among other things, a reduction in the minimum contract term from five years to one year, and specific major events that would trigger an early review of the non-derogated elements.

Epic Energy did not appeal the ACCC's final decision to the tribunal. However Epic was granted leave to appear in tribunal proceedings with Duke on the question of review triggers with respect to Duke's Queensland gas pipeline.

2002 review: Victorian transmission access arrangements

On 20 August 2002 the ACCC released its draft decisions on the first scheduled review of the GasNet Australia (Operations) Pty Ltd (GasNet) and the Victorian Energy Networks Corporation (VENCorp) gas transmission access arrangements.

Under the market carriage capacity management system operating in Victoria, users pay tariffs to both the system owner, GasNet, and the independent system operator, VENCorp. Approximately 85 per cent of the combined tariff is paid to GasNet.

The ACCC proposes to accept a range of major changes to the arrangements it approved in 1998 for GasNet's predecessor, Transmission Pipelines Australia. These include merging GasNet's two access arrangements, including the south-west pipeline in the asset base, the introduction of pass-through mechanisms and prudent discounts, changes to the tariff control formula so that loss of revenue due to changes in product mix can be recouped, and the removal of the automatic requirement for small pipeline extensions can be regulated. The ACCC proposes to accept GasNet's aggregate demand forecasts and that it recoup approximately $10.3 million (2002 dollars) of unrecovered revenue from the first access arrangement period. It also proposes that GasNet retain approximately $16 million of tax allowances included in its target revenue for the first access arrangement under the pre-tax approach adopted for that time.

However, it does not propose to accept a number of other proposals put forward by GasNet. In particular, it does not consider GasNet's proposal to redetermine the initial capital base (so that the 1 January 1998 value would be increased by $35.8 million) is consistent with the principles and objectives of the code.

With respect to VENCorp's access arrangement, the ACCC proposes to accept the five-year tariff path for commodity and registration tariffs which was proposed by VENCorp to promote greater certainty for users of the transmission system. The ACCC also proposes to accept VENCorp's use of internal key performance indicators in the absence of external performance comparison and benchmarking. While the ACCC proposes to approve the main elements of VENCorp's proposal, a number of amendments are required to ensure the efficient operation of the combined access arrangements for the transmission system as a whole. Such amendments relate to VENCorp's demand forecasts and its services policy.

Accordingly, the ACCC proposes not to approve the proposed revised access arrangements in their current form. After considering further submissions, it will issue its final decisions.

Moomba to Adelaide pipeline system

On 31 July 2002 the ACCC issued its final approval on the proposed access arrangement for the Moomba to Adelaide pipeline system (MAPS) submitted by Epic Energy.

The MAPS connects the Cooper Basin production and processing facilities at Moomba to markets for natural gas in Adelaide and in regional centres in South Australia.

The final approval is an assessment of Epic's revised access arrangement to determine whether it complies with the ACCC's final decision, which was released on 12 September 2001.

The access arrangement describes the terms and conditions on which Epic must provide natural gas haulage services on the MAPS, and the maximum price (reference tariff) that customers would be charged for these services for the period to 31 December 2005.

Epic submitted its revised access arrangement on 22 January 2002 and also lodged a number of submissions, the latest of which was received by the ACCC on 2 July 2002.

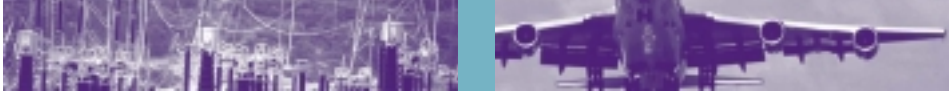
Epic did not comply with the ACCC's final decision. The ACCC was therefore required under section 2.20(a) of the gas code to draft and approve its own access arrangement.

In drafting its access arrangement, the ACCC has sought to maintain the proposed access arrangement as much as possible. The ACCC has only made changes which were required to comply with the final decision.

The changes made by the ACCC relate to the tariff, expansions and services policies. The tariff policy elements included the value of the initial capital base and parameters used to determine the return on equity.

While the ACCC's final approval provides for lower tariffs than those proposed by Epic, the revenue stream that the ACCC has established would

network national developments telecommunications gas electricity airports rail transport prices ncc state developments network victoria western
state developments victoria western australia network national developments telecommunications network gas electricity airports rail transport prices oversight



provide a post-tax return on equity to Epic of 12.6 per cent. This return is consistent with previous decisions made by the ACCC and is a reasonable return when compared with other return benchmarks. Under the gas code, Epic could also achieve higher returns by achieving cost savings or the sale of non-reference services.

The analysis conducted in making the final decision and final approval suggests that if Epic's proposed access arrangement had been approved, consumers and industry would face excessive energy charges in years to come. Epic's proposed terms and conditions could also have made third party access to the MAPS unnecessarily difficult. The combination of these factors could discourage investment and harm the South Australian economy in the absence of the ACCC's access arrangement.

The pipeline is fully contracted under the gas code, preserving existing haulage agreements and revenues. The existing gas haulage contracts expire in 2006. As such, the terms of the access arrangement will form an important input to the negotiation of new gas haulage contracts.

The final approval and the ACCC's access arrangement are available on the ACCC's website.

On 15 August 2002 Epic applied to the Australian Competition Tribunal for a review of the ACCC's decision.

Moomba to Sydney pipeline system: East Australian Pipeline Limited

In December 2000 the ACCC released its draft decision on East Australian Pipeline Limited's (EAPL) proposed access arrangement for the Moomba to Sydney pipeline system (MSP). Following the release of this decision EAPL advised the ACCC of its application to the National Competition Council (NCC) for the revocation of coverage of certain sections of the MSP (the Moomba to Sydney mainline and the Canberra lateral). EAPL's application to the NCC followed an earlier decision by the Australian Competition Tribunal that Duke Energy's eastern gas pipeline would not be a covered pipeline under the gas code. The ACCC subsequently agreed to EAPL's request for a delay in the assessment of the MSP's access arrangement, subject to a six-month review.

In December 2001 the NCC released its draft recommendation that the MSP remains covered by the gas code. In reaching its position the NCC relied on material contained in the ACCC's draft decision. The ACCC proposed tariffs that were significantly less than EAPL's current tariffs. In its analysis the NCC concluded that this was evidence that EAPL was earning monopoly rents which in turn was distorting investment in upstream and downstream markets. The NCC is due to make its final recommendation to the minister by 21 October 2002.

In January 2002 EAPL approached the ACCC requesting a further delay of the assessment of the MSP access arrangement pending the release of the NCC's final recommendation. The ACCC, however, considered that it was in the public interest to restart the assessment process and decided to proceed with its final decision. The Australian Pipeline Trust (APT) subsequently lodged a revised access arrangement on behalf of EAPL, dated 30 April 2002.

In June 2002 the ACCC called for submissions from interested parties on EAPL's revised access arrangement. The ACCC intends to release its final decision this year after considering submissions and conducting its own assessment.

Greenfields

The ACCC released its *Draft greenfields guideline for natural gas transmission pipelines—a guide to the access regulation framework and options for new natural gas transmission pipelines in Australia* on 25 June 2002. This is to help industry participants understand if and how the regulatory regime applies to a new natural gas transmission pipeline.

Its aim is to promote greater certainty through greater transparency, and to address some of the concerns that have been raised about the difficulties of developing new pipelines. Copies of the draft guideline and related consultancy reports are available on the ACCC website.

The ACCC will host a consultative forum before finalising the greenfields guideline. Details for the forum will be advertised in the major daily press.

Application for re-authorisation of the Victorian gas industry market system and operations rules

In addition to its review of the Victorian access arrangements, the ACCC is assessing VENCorp's application for re-authorisation of the market and system operations rules (the MSOR). The ACCC received VENCorp's application on 20 May 2002.

The ACCC initially granted authorisation to the MSOR in August 1998, and this authorisation continues in force until 1 January 2003.

The ACCC released an issues paper in June 2002 highlighting the major issues that interested parties might wish to address. The ACCC has subsequently received submissions from a wide range of interested parties, including government, producers, retailers and users' groups. The ACCC intends to release a draft determination on VENCorp's application in October 2002.

Contact: Russell Phillips
(02) 6243 1259

Transport and Prices Oversight

Aviation and Post

Airservices Australia

On 13 May 2002 Airservices Australia provided a pricing proposal to the ACCC covering services for air traffic control, airport rescue and firefighting. Airservices Australia is the only provider of these services in Australia and is 'declared' under the *Prices Surveillance Act 1983*. With its monopoly position, Airservices Australia must notify the ACCC of proposed price increases.

Airservices Australia claimed the increases were required to offset the effect on profits of lower traffic volumes as a result of the events of 11 September 2001 and the end of Ansett. It proposed price rises that would result in a return on revenue of 9.1 per cent in 2002–03. Overall, the average price increase is 5.1 per cent which translates to an increase of between 0.1 and 0.2 per cent of the fare, estimated to be not more that $1.47 for an international fare from Australia or $1.15 for a domestic fare.

An issues paper was released in May and a preliminary view in June 2002. Submissions were received from interested parties with most arguing against the proposed increases in charges.

In its July 2002 decision the ACCC did not object to a temporary price rise noting that while there was justification for a price rise in the 2002–03 financial year, it could not extend agreement beyond this period without a review of traffic forecasts. An important factor in the decision was the fact that Airservices Australia had taken the initiative to reduce prices in recent years when airline activity has been growing.

A statement of reasons for the decision is available from the ACCC website.

australia south australia act new south wales tasmania queensland northern territory contacts ncc telecommunications gas electricity airports rail transport prices n
ncc state developments contacts network state developments victoria western australia south australia act new south wales tasmania queensland northern ter

Australia Post's proposed price increases.

In April 2002 Australia Post advised the ACCC of its intention to increase the price of assorted postal services, including the price of the basic postage stamp from 45 cents to 50 cents, pre-sorted mail, greeting cards and large letters, effective from January 2003. Australia Post also proposes to introduce a new non-barcoded, bulk mail category called 'Clean Mail', priced at a discount to the basic postage rate.

Australia Post has a legislated monopoly right to carry letters within Australia. Services covered by this right are called 'reserved' services. In return for this monopoly right, Australia Post provides a universal letter service to all Australians at a uniform rate—currently 45c. Reserved postal services are declared under the *Prices Surveillance Act 1983*. This means that Australia Post must notify the ACCC before it can increase the prices of these services.

In early May the ACCC released an issues paper providing information on the assessment process and issues associated with Australia Post's proposed price changes and sought written comments from the public. (A copy of the paper can also be found on the ACCC website). In mid-June, the ACCC held a series of public forums and in July a technical forum chaired by Commissioner John Martin to hear views from interested parties and to discuss the issues surrounding the proposal.

Preliminary findings were released in August.

Waterfront

Adsteam Marine

Adsteam Marine Limited's harbour towage operations in the ports of Sydney (Port Jackson, and Port Botany), Melbourne, Brisbane, Adelaide, Fremantle and Newcastle are declared services under the *Prices Surveillance Act 1983*. Harbour towage operations relate to tug boats that assist vessels to enter and exit various ports around Australia. As a declared company, Adsteam is required to notify the ACCC of any proposed price increases at these ports.

On 14 December 2001 Adsteam lodged several price notifications with the ACCC outlining its proposed towage rate increases for its operations in the ports of Sydney (Port Jackson and Port Botany), Melbourne, Brisbane and Adelaide. The intended rate increases ranged from 11.7 per cent in Brisbane to 26.2 per cent in Port Jackson. Adsteam argued that it required an 18 per cent 'margin over costs' to form the basis of its proposed towage rate increases for the five ports.

The ACCC examined the claims of Adsteam and identified some fundamental concerns with the methodology used by Adsteam to justify its proposed price increases. Specifically the ACCC found that Adsteam had double counted its margins and its proposed rate increases included a rate of return on capital and a rate of return over its costs that already included a return on capital. The ACCC also sought expert advice from Professor Kevin Davis who concurred with its analysis.

Using the approach set out in the ACCC's publication, *Draft statement of principles for the regulation of transmission revenues*, the ACCC found that Adsteam achieved adequate rates of return at the current level of prices for its operations at all five ports and that no increase in prices could therefore be justified. Under the PS Act the ACCC cannot enforce rate declines to place pressure on companies to lower costs to efficient levels.

On 19 February 2002 the ACCC decided that Adsteam's proposed increases in towage charges for all five ports for which it submitted price notifications were not justified. A week later the ACCC publicly released a statement of reasons for the decision.

On 20 February the government announced that the Productivity Commission (PC) was to conduct a six-month public inquiry into the economic regulation of harbour towage services and the future of the Harbour Towage declaration under the PS Act, which lapses on 19 September 2002. The ACCC has argued in its submission to the PC inquiry that regulation of prices set by towage operators in declared major ports should be continued.

On 6 March Adsteam announced that it had increased its harbour towage rates at the five ports in line with those notified to the ACCC. Once price increases have been notified to the ACCC the PS Act does not provide for any penalty if those prices are subsequently introduced, notwithstanding the decision made by the ACCC on that notification.

Given the experience and that the current declaration of harbour towage services under the Prices Surveillance Act is due to expire in September 2002, the Productivity Commission is inquiring into harbour towage services. The inquiry was completed in August 2002.

Petrol

Release of report on reducing fuel price variability

In early March 2001 the federal government requested the ACCC 'to examine the feasibility of placing limitations on petrol and diesel retail price fluctuations throughout Australia'. The report was released on 14 May 2002.

Volatility in retail petrol prices is generally confined to the major metropolitan cities and some rural towns on major highways. The price cycles in these areas are fairly regular and frequent. Diesel prices in the major metropolitan cities do not display price cycles.

The report concluded that it is likely that consumers, taken in aggregate, benefit overall from price cycles. There are two reasons for this:

- In general, consumers in aggregate are better off with variable prices than they are with a fixed (simple average) price, because they have the opportunity to buy at the low point of the price cycle.
- Data obtained by the ACCC indicated that on average, around 60 per cent of the total volume of petrol sold over the petrol price cycle is sold below the average price of the price cycle.

Several options for limiting petrol price cycles were examined, including terminal gate pricing (TGP) with a number of conditions, limiting price changes to only once in 24 hours, limiting price increases to a certain amount each day, and price regulation at the retail and wholesale levels. The report concluded that the options would have either no effect on price cycles or, where they would have an effect, they could lead to higher average retail prices.

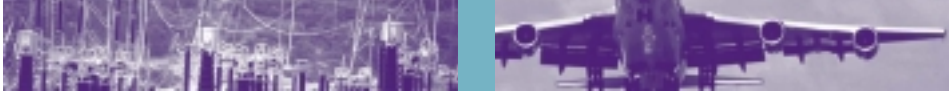
The report had five recommendations:

- there should be a consumer awareness initiative to increase consumers' understanding of price cycles
- the government should consider holding discussions with all industry participants to further reform in the petroleum industry
- the current TGP arrangements in WA and Victoria should be monitored closely
- other options to limit price cycles should not be implemented
- the fuel pricing arrangements in WA should continue to be monitored closely.

The government announced on 14 May 2002 that it agreed with all of the recommendations.

Copies of the report are available from the ACCC website or from the Publications Unit.

Contact: Margaret Arblaster
(03) 9290 1862



National Competition Council (NCC)

Certification of access regimes

Queensland gas

The NCC has received written comments from interested parties on its draft recommendation on the effectiveness of the Queensland regime and will consider these before forwarding its final recommendation to Senator Campbell, Parliamentary Secretary to the Treasurer.

Victorian rail access regime

The NCC is awaiting the finalisation of the amendments before forwarding its recommendation to Senator Campbell, Parliamentary Secretary to the Treasurer.

South Australian ports and maritime services access regime

Following receipt of submissions from interested parties, the NCC has raised concerns about the ports and maritime services access regime with the South Australian Government and is currently waiting for their response.

Declaration applications

Western Power

These proceedings are ongoing. See previous issue of *Network*.

Freight Australia

Copies of the minister's decision and the NCC's recommendation are available from its website at <http://www.ncc.gov.au>.

Freight Australia has applied to the Australian Competition Tribunal for a review of the minister's decision.

AuIron Energy Ltd

The NCC has forwarded its final recommendation to Senator Campbell.

National gas code

Revocations

Moomba to Sydney and Dalton to Canberra transmission pipelines (NSW)

The NCC is currently considering the information it received and will be forwarding its final recommendation to the Commonwealth Minister for Industry, Science and Resources by 21 October 2002.

Western Australia

Office of Gas Access Regulation (*Off*GAR)

Proposed access arrangements

In Western Australia there are two pipeline systems for which final decisions have yet to be issued. These are the Dampier to Bunbury natural gas pipeline and the Goldfields gas pipeline. There is one pipeline for which a proposed access arrangement is yet to be submitted, the Kalgoorlie to Kambalda pipeline.

Draft decisions for the Goldfields gas pipeline and the Dampier to Bunbury natural gas pipeline were issued on 10 April 2001 and 21 June 2001 respectively. While the WA Independent Gas Pipelines Access Regulator is endeavouring to progress the assessment of these access arrangements, both have been the subject of legal action in the Supreme Court of Western Australia. A decision has now been handed down for the Dampier to Bunbury natural gas pipeline, however, the court action for the Goldfields gas pipeline continues.

Court decision in respect of the Dampier to Bunbury natural gas pipeline

On 23 August 2002 the Western Australian Supreme Court handed down its decision on the Epic Energy legal challenge to the regulator's draft decision. The court did not set aside the regulator's draft decision as Epic Energy had wanted, did not consider it necessary to grant Epic Energy the prerogative relief it sought and found that Epic Energy was afforded procedural fairness. The court did, however, consider that declaratory relief should be provided giving guidance on a number of difficult issues related to the construction of the natural gas pipelines access code.

The regulator has indicated that he will act in accordance with the decision of the court and will issue a final decision after due consideration of all of the matters raised by the court together with issues raised in existing and future submissions. On 2 September 2002 the regulator issued an information paper setting out the process he intends to follow to progress the assessment of Epic Energy's proposed access arrangement. In accordance with the court's decision, the information paper invites additional submissions. A copy of the information paper is available from the *Off*GAR website at <http://www.offgar.wa.gov.au>.

Kalgoorlie to Kambalda pipeline

On 1 December 2000 the regulator granted Southern Cross Pipelines Australia Pty Ltd, the owner and operator of the Kalgoorlie to Kambalda pipeline, an extension of time to submit a proposed access arrangement to 1 December 2002. The extension of time was granted subject to anyone making application to the regulator seeking access to the pipeline. In that event, the extension of time would be withdrawn and submission of an access arrangement would be required within 90 days of the date of the application.

Following an application by a proposed user seeking access to the pipeline, the regulator advised the owners on 27 March 2002 that a proposed access arrangement was required for

the pipeline by 1 July 2002. However, subsequent negotiations led to a satisfactory agreement being reached between the owners of the pipeline and the prospective user allowing the regulator to grant a new extension of time until 1 July 2004.

Revocation of the Parmelia pipeline

An access arrangement for the Parmelia pipeline was approved on 15 December 2000.

On 31 October 2001 CMS Gas Transmission of Australia, the owner and operator of the Parmelia pipeline, applied to the National Competition Council (NCC) for revocation of coverage of the pipeline.

Following a review of the application for revocation and public consultation, the NCC issued a final recommendation to the Western Australian Minister for Energy on 20 February 2002 for revocation of the pipeline under the code. On 13 March 2002, the minister revoked coverage of the pipeline effective from 1 April 2002. Access to the pipeline is available on the basis of commercial negotiation between CMS and access seekers.

Mid-west and south-west gas distribution systems

Promotional contract

On 9 April 2002 AlintaGas Networks Pty Ltd (Networks) submitted to the regulator a proposed promotion contract for it to contribute to a marketing initiative by AlintaGas Sales Pty Ltd (Sales) to promote the use of the mid-west and south-west gas distribution systems. The regulator considered the proposed contract to be an associate contract under the code.

The code requires that a pipeline service provider obtain approval from the regulator for any associate contract.

Networks submitted that the promotional initiative, if successful, would result in increased throughput through the gas distribution systems. This increased throughput would be expected to be generated with minimal risk and a marginal increase in expenditure resulting in better utilisation of the existing infrastructure, with benefits to pipeline users and gas consumers in the medium to long term.

After an assessment of the proposed promotion contract, the regulator issued a decision to approve the contract on 30 April 2002.

Full retail contestability costs

On 24 June 2002, Networks submitted a proposal for the regulator's binding approval, under section 8.21 of the code, of the costs it would incur by developing systems associated with the introduction of full retail contestability (FRC) in Western Australia. If approved, the costs of the investment by Networks would be added to its capital base when its access arrangement is reviewed in March 2004 and reference tariffs for use of its mid-west and south-west gas distribution systems would be adjusted accordingly.

Networks also requested that the regulator provide a non-binding acknowledgment that FRC related non-capital costs are likely to satisfy the requirements of section 8.37 of the code.

This application requires public submissions to be called for at least 28 days before issuing a draft decision and thereafter at least 14 days before issuing the final decision. The first period of public submissions was called on 4 July 2002. Three submissions were received. The draft decision is expected to be issued in September 2002.

Information on developments relating to gas access regulation is available from the Office of Gas Access Regulation website

Contact: Peter Kolf
(08) 9213 1900

WA Independent Rail Access Regulator

The Office of the independent Rail Access Regulator was established in Western Australia in September 2001.

The regulator's main role is to oversee, monitor and enforce compliance with the Act and the code. The regulator is required to:

- approve and/or determine the costing principles and overpayment rules that should underpin third party access charges
- approve and/or determine the floor and ceiling costs that should apply to certain routes, on a segment by segment basis as specified by the railway owner
- approve and/or determine the 'ring fencing' or segregation arrangements that should apply to the railway owners
- approve and/or determine the train management guidelines and statement of train path policy that should apply to the railway owners
- review and, if appropriate, approve access arrangements that precludes other entities from access.

Other duties of the regulator include the need to:

- provide advice, on request, to access seekers that the price offered is consistent with access prices charged to the railway owner or its associates
- maintain a public register of access arrangements (although the access arrangements themselves are not public)
- obtain information and documents from the railway owners and in so doing the regulator has power of entry, if required
- release information that will benefit negotiations (other than commercially confidential information), if appropriate;
- determine the weighted average cost of capital, annually as at 30 June of each year
- apply penalties for breaches of the Act; and upon recommendation of the Chairman of the WA Chapter of the Institute of Arbitrators and Mediators, establish a panel of arbitrators to resolve disputes that may arise during the negotiation of an access agreement. Although not involved in any arbitration, the regulator may provide information or advice to the arbitrator, if requested.

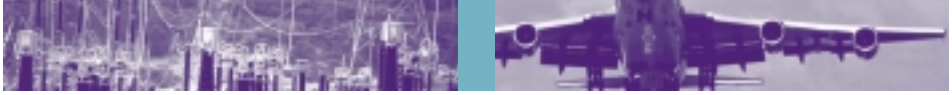
Since its inception, the regulator has issued final determinations on segregation arrangements for WestNet Rail (WNR) and the Western Australian Government Railways (WAGR) and issued draft determinations on:

- costing principles and overpayment rule to apply to WNR
- train management guidelines to apply to WNR and WAGR
- statement of train path policy to apply to WNR and WAGR.

The regulator is required to determine the rate of return on an annual basis and on 30 June 2002 the regulator derived the weighted average cost of capital for the urban and non-urban railways infrastructure to apply during 2002–03. The regulator's final determination was as follows for the:

- urban railway infrastructure WACC— 4.9 per cent real pre-tax
- non-urban railway infrastructure WACC— 7.8 per cent real pre-tax.

network national developments telecommunications gas electricity airports rail transport prices ncc state developments network victoria western state developments victoria western australia network national developments telecommunications network gas electricity airports rail transport prices oversight



The code uses gross replacement value (GRV) methodology to determine the value of the asset. To assist the understanding of this approach, a paper comparing the ceiling outcomes under the code's GRV methodology with the more commonly used depreciated optimised replacement cost method was developed. The paper has been posted on the regulator's website.

Further details, including all determinations and public comments, can be found on the regulator's website.

South Australia

South Australian Independent Industry Regulator (SAIIR)

Legislation

Essential Services Commission Bill

The SA Government has introduced legislation into Parliament to establish an Essential Services Commission (ESC).

The new ESC will subsume the existing regulatory responsibilities of the SAIIR. The ESC will continue to have regulatory independence and will not be subject to the direction and control of the Minister with respect to its regulatory functions. The current Independent Industry Regulator, Mr Lew Owens, will become the first Chairman of the new ESC.

The Minister for Energy, the Hon. Patrick Conlon, has indicated that over the next few months the functions of the ESC will be expanded from the current regulatory responsibilities in the electricity industry, third party access to the Tarcoola-Darwin railway and third party access to South Australian ports and maritime services, to include regulation of the gas industry and water and sewerage services.

Electricity Act

The government has also introduced legislation into Parliament to amend the *Electricity Act 1996*. The pivotal aim of these amendments is to clarify full retail contestability (FRC) arrangements. FRC is scheduled to commence on 1 January 2003.

Electricity supply industry

Inter-regional settlements auction and network rebates

The settlements residue auction (SRA) arrangements were developed by NEMMCO to encourage inter-regional trade in electricity between regions in the National Electricity Market. The SAIIR Office has prepared a booklet that discusses the SRA process and presents recent trends in SRA amounts. The effect on customers and network tariffs from changes in the proceeds raised from SRAs over time is also discussed.

Distribution price review

Distribution price review framework—discussion paper

This paper sets out the framework within which the 2005 distribution price review will be conducted. In particular, it sets out the regulatory approach adopted by the SAIIR, with all aspects of the legal framework governing the 2005 price review.

The SAIIR is currently in the process of finalising the working conclusions on the price review framework to apply over the 2005–10 period.

Consumer preference for service standards in electricity distribution

Consultants have been engaged to assist with conducting a survey of South Australian consumer preferences and their willingness to pay for service. The survey results will form a key input into determining appropriate service standards that should apply to ETSA Utilities from 2005–10. In particular, the survey and subsequent analysis will assist the SAIIR to develop the minimum standards and service incentive arrangements for the 2005 price review.

The survey results are expected to be finalised by October 2002.

Developing service incentives for the 2005 electricity distribution price review

The 'Service Standards for 2005 to 2010' discussion paper released by the SAIIR in February 2002 discussed issues relating to establishing service standards for ETSA Utilities as part of the 2005 price review. The submissions to this paper supported the inclusion of service incentive arrangements similar to those currently included in the South Australian distribution code.

The purpose of this discussion paper is to facilitate discussion on the issues relating to developing these service incentives for the 2005–10 period. In particular, this paper discusses the measures, financial incentives and structure of a service incentive scheme and guaranteed service level scheme. This paper does not directly address issues relating to establishing minimum service standards.

The submissions to this paper, along with the results of the customer survey, will be used to form the working conclusions that the SAIIR will adopt for the 2005 price review. This will include defining all aspects of the service standards framework for the 2009–10 period. The SAIIR expects to complete this work by mid-2003.

Full retail contestability (FRC)

The SAIIR is responsible for establishing an appropriate consumer protection regime for the commencement of FRC in SA on 1 January 2003.

Electricity retail competition

Marketing code of conduct consultation paper

The consultation paper outlined a proposal for a marketing code to regulate the marketing of retail electricity contracts to consumers following the commencement of FRC.

Consumer transfer and consent issues

This paper was jointly prepared by the SAIIR and the SA Department of Treasury and Finance (DTF). The discussion paper covers the following issues:

- the setting of jurisdictional rules for NEMMCO's market settlement and transfer solution (MSATS) procedures by the SA government
- the setting of a national metering identifier (NMI) standing data schedule by the Jurisdictional Regulator
- The development of a consumer transfer code by the SAIIR.

Metrology issues

This paper proposes amendments to the metrology provisions in the South Australian codes and licences produced by the SAIIR. These codes and licences need to be compatible with, and complement, the metrology requirements which are incorporated in the National Electricity Code (NEC) and the SA metrology procedure. Draft amendments to the SA metering code have now been prepared for consultation.

Price regulation

The SAIIR has released an 'initial thoughts' paper on price regulation options for the commencement

australia south australia act new south wales tasmania queensland northern territory contacts ncc telecommunications gas electricity airports rail transport prices n
ncc state developments contacts network state developments victoria western australia south australia act new south wales tasmania queensland northern ter

of FRC in January 2003. Responses to the paper are to be considered in a draft determination to be released in September 2002.

Operational ring fencing requirements in SA

A draft guideline describing operational ring fencing requirements in the SA electricity supply industry has been released. The draft guideline proposes a number of obligations to be met by the SA distribution licensee, ETSA Utilities.

Coordination agreement between ETSA Utilities and retail licensees

In SA all retailers licensed by the SAIIR are required, as a mandatory condition of licence, to enter into a coordination agreement with the distributor, ETSA Utilities, on terms approved by the SAIIR. A reciprocal obligation is imposed on ETSA Utilities. Coordination agreements deal with such matters as coordination of information and requests for connection, billing procedures, customer inquiries and disputes, and allocation of responsibilities and liabilities for certain customer claims.

The SAIIR has commenced a review of the coordination agreements that are currently in place to ensure that they account for specific FRC issues concerning dealings between retailers and ETSA Utilities. The SAIIR will also review non-FRC aspects of the coordination agreements currently in place. The major stages in this review are:

- release by the SAIIR Office of a discussion paper concerning the issues associated with the review of coordination agreements and consultation with stakeholders
- preparation by the SAIIR of a position paper incorporating possible changes to coordination agreements that represent the SAIIR's preferred position, taking into account the outcomes of the consultation process—the amendments proposed in the position paper will provide the basis for such negotiations between ETSA Utilities and retailers concerning new agreements.

Annual price adjustments

Distribution—ETSA Utilities

In accordance with clause 5.1(a) of the electricity pricing order (EPO), the SAIIR received a statement from ETSA Utilities to alter its distribution tariffs for the regulatory year from 1 July 2002 to 30 June 2003. The SAIIR has approved this statement. The average increase in distribution tariffs was 2.23 per cent.

Retail—AGL SA Pty Ltd

In accordance with clause 5.1(a) of the electricity pricing order (EPO), the SAIIR received a statement from AGL SA Pty Ltd to alter its non-contestable retail tariffs for the period 1 July 2002 to 31 December 2002. The SAIIR has approved this statement. As a result, the 2001–02 retail tariffs are to be inflated by 2.93 per cent for the regulatory year ending 31 December 2002. This is due to an increase in the March quarter CPI (average eight capital cities) of 2.94 per cent less estimated savings due to the introduction of the New Tax System on 1 July 2000 of 0.01 per cent.

Reselling tariffs for the period 1 July 2002 to 31 December 2002

The Electricity (General) Regulations 1997 set the maximum price that inset network operators can charge those inset customers that do not have access to a retailer of their choice (because of an existing lease agreement).

For non-contestable inset customers, the maximum amount is the applicable franchise retail tariff as if the inset customer were supplied directly by AGL SA Pty Ltd. For contestable customers, this amount is the applicable grace period tariff as at 30 June 2001 adjusted annually for inflation (the formulas for doing so are set out in the regulations). The SAIIR has recently released these reselling tariffs for the regulatory year ending 31 December 2002.

In addition, the type of, and charges for services or things provided in connection with the supply of electricity must not exceed that charged by AGL SA.

Fuel poverty

The Office of the SAIIR hosted Callum McCarthy, Chief Executive of the Office of Gas and Electricity Markets (OFGEM) and Chairman of the Gas and Electricity Markets Authority, UK on 1 July 2002. Callum presented details of the work his organisation has undertaken to respond to fuel poverty issues in the UK at a seminar convened by the SAIIR.

To further understand issues relating to fuel poverty in South Australia the Office of the SAIIR has recently engaged Professor Sue Richardson and Associate Professor Peter Travers of the National Institute of Labour Studies at Flinders University to undertake a research project in this area. In particular, the SAIIR is seeking an assessment of the concept of fuel poverty, the uses to which the measure has been put and its effectiveness in identifying households whose standard of living is most sensitive to changes in fuel prices (or which are most likely to experience hardship as a result of rises in fuel prices). The research project will be completed in September.

Low income electricity consumers (LIEC) project

The LIEC project is a joint initiative between the SA Council of Social Service (SACOSS) and the Council on the Ageing (SA) Inc, funded by the Office of the SAIIR. The LIEC project aims to produce:

- reliable data on LIEC's needs and concerns and those of agencies supporting them regarding changes to the electricity retailing sector in SA
- a model for the ongoing assessment of electricity reform impacts on LIEC's and agencies providing services to them
- recommendations for measures which can reduce the effect of these changes on the LIEC population (e.g. electricity use and charges, the retail code, concessions, information provision)
- assessment of opportunities for legislative, regulatory or policy responses to create more supportive conditions for LIEC's.

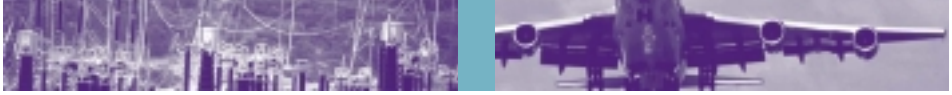
The final report of the project will be released in August 2002.

Licence applications

Several licence applications received by the SAIIR over the past 12 months are presently on hold, awaiting further advice from proponents or resolution of technical issues. These include:

- Babcock and Brown Wind Power Pty Ltd—generation licence issues in July 2002, authorising operations of stage 1 of a wind farm near Lake Bonney in the South-East of SA with a capacity of 80MW.
- Auspine Green Energy Pty Ltd—generation licence for proposed 60MW biomass-fuelled power station at Tarpeena.
- Southernlink Transmission Company Ltd—transmission licence for the proposed 'hybrid' interconnector based around an upgrade in capacity of the existing Heywood interconnector between Victoria and SA.
- Ausker Energies Pty Ltd—generation licence for proposed wind farm at Tungketta Hill on Eyre Peninsula.

network national developments telecommunications gas electricity airports rail transport prices ncc state developments network victoria western state developments victoria western australia network national developments telecommunications network gas electricity airports rail transport prices oversight



Licence approvals

- ETSA Utilities Partnership—a distribution licence was issued in June 2002 authorising the operation of electricity distribution networks in the locations of Oodnadatta, Parachilna, Marla, Marree, Nundroo, Glendambo, Kingoonya, Mannahill, Blinman and Cockburn.
- Cavill Power Products Pty Ltd—a generation licence was issued in June 2002 authorising operation of generation plants in the locations of Oodnadatta, Parachilna, Marla, Marree, Nundroo, Glendambo, Kingoonya, Mannahill and Blinman.
- Transgrid—transmission licence for proposed SA-NSW Interconnect (SNI). The SAIIR issued a draft determination on this matter in December 2001 and sought comment. Having reviewed comments received, the SAIIR issued a determination in April 2002:
  - A transmission licence should be issued to TransGrid.
  - The date of issue of such a licence to TransGrid would not be in advance of any approval for SNI pursuant to the *Development Act 1993.*
  - The licence would authorise TransGrid to operate a transmission network within a corridor equivalent to that for the so-called Central Route currently being considered for development approval (or such other route corridor as is relevant at the time of issue of the licence).
  - The licence would be similar in form to the transmission licence currently held by ElectraNet SA, but finalisation of the licence must await completion by the SAIIR of a review of the transmission licence held by ElectraNet SA (scheduled for September 2002).
  - The licence would include a condition which ensures that the route of SNI is suited to economic connection for supply to the Riverland from both Buronga and Roberstown via the Monash substation.

Transmission sector

The ACCC is presently undertaking a revenue review for ElectraNet A, which operates the main transmission network in SA. The results of this review will take effect from 1 January 2003 when the current electricity pricing order, as it applies to ElectraNet SA, expires.

The SAIIR will continue to licence the transmission operations of ElectraNet SA. A condition of ElectraNet SA's licence is compliance with the transmission code.

The SAIIR has commenced a review of both the ElectraNet SA transmission licence and the transmission code to ensure that these regulatory arrangements complement the outcomes of the ACCC review. A key issue in the SAIIR's review concerns service standards set in the transmission code. In addition, the current performance incentive scheme, established through the transmission code will be deleted. It is understood that a new PI scheme may be instituted by the ACCC.

Rail

Tarcoola-Darwin railway

The SAIIR has given further consideration to its options for dealing with regulatory matters before commencement of operations of the new Tarcoola–Darwin railway. In July 2002 the Office released an information paper which details the SAIIR's interpretation of its role in the lead-up to commencement of operations on the new railway in light of possible constraints imposed by clause 2 of the AustralAsia Railway (Third Party Access) Code (the code) and notwithstanding the fact that operations on the new railway are not due to commence for at least another 12 months.

Following the receipt of legal advice the SAIIR has decided to operate in future on the following basis:

- guidelines contemplated by the code will be developed where, or to the extent, that doing so does not depend on the code having been applied to a part of the railway
- when giving effect to those provisions of the code which do not depend upon the application of the code to a part of the railway, regard will be taken of the provisions of the code to come into effect once applied to a part of the railway
- only where the SAIIR forms the view that a particular guideline (or part of a guideline) cannot be drafted or considered without there being a part of the railway to which the code applies will no such process commence.

The SAIIR's future approach to its functions regarding third-party access to the Tarcoola–Darwin railway will therefore be such that access negotiations taking place before commencement of operations on the new railway or before relevant parts of the railway being prescribed by the ministers under clause 2 of the code can be informed by guidelines (or proposed guidelines) that are published (or under development).

Ports

Advisory Bulletin No. 1—ports regulation in South Australia

In April 2002 the Office of the SAIIR released its first Ports Advisory Bulletin, which outlines the regulatory regime applying to South Australian ports and the role of the SAIIR in port regulation.

Ports price approval

In May 2002 the Office approved applications from Flinders Ports Pty Ltd and AusBulk Ltd for price cap adjustments to the ports of Port Adelaide, Port Giles, Wallaroo, Port Pirie, Port Lincoln, Thevenard and Adrossan.

Price caps for essential maritime services are adjusted by the Adelaide CPI (year to March quarter, which was 2.68 per cent). The changes took effect on 1 July 2002. The cargo services charge for grain did not change.

Information paper—regulation of South Australian ports

In June 2002 the Office of the SAIIR released an information paper which explains the arrangements for ports regulation in SA entitled 'Regulation of South Australian ports'.

Ports access guidelines—discussion paper

In July 2002 the SAIIR released a discussion paper entitled 'Ports access guidelines: price information and regulatory accounts'. The discussion paper is intended to facilitate consultation on the SAIIR's development of two guidelines required under the ports access regime. The guidelines will cover:

- price information that a regulated operator is required to provide about regulated services to an intending proponent
- regulatory accounts that regulated operators must keep
- the price information guidelines in particular are of significance to port users as they may affect the effectiveness of the access regime—as such comments from current or potential port users will be significant in their development.

Contact: Lew Owens
(08) 8463 4450

australia south australia act new south wales tasmania queensland northern territory contacts ncc telecommunications gas electricity airports rail transport prices n
ncc state developments contacts network state developments victoria western australia south australia act new south wales tasmania queensland northern ter

New South Wales

Independent Pricing and Regulatory Tribunal

IPART reports mentioned below can be downloaded from <http://www.ipart.nsw.gov.au>.

Energy

Costs of full retail contestability (FRC)

IPART has reviewed the costs claimed by all regulated energy businesses relating to the implementation of contestability. PB Associates assisted IPART in this review. Information on the costs approved by the tribunal recovery, consistent with each of the determinations and arrangements under which the businesses are regulated, is expected to be made available on IPART's website during August 2002.

Electricity

2004 Review of distribution network prices

IPART's current determination on the regulatory arrangements to apply to NSW distribution network service providers (DNSPs) expires on the 30 June 2004. IPART commenced its review (conducted under the National Electricity Code) by reviewing the form of regulation that should apply from 1 July 2004. IPART released its decision on the form in June 2002. The form of economic regulation that will apply to the distribution component of network tariffs in the regulatory period commencing 1 July 2004 will be a weighted average price cap.

IPART intends to undertake comprehensive public consultation as part of the rest of its 2004 review. The table illustrates the indicative timetable for public consultation that IPART will adopt for the 2004 review.

IPART will make publicly available its financial model with accompanying users guide in November 2002.

Network and retail price changes

IPART has reviewed the pricing proposals that each of the DNSP's and standard retail suppliers have submitted. IPART does not approve the tariffs, but checks that the proposed charges comply with the relevant determinations. The new tariffs took effect on 1 August 2002.

Timetable for public consultation (2004 review)

Tribunal releases financial model, guidelines and template to be used by DNSPs for their public submissions	November 2002
Review of the efficiency of both operating and capital expenditures	October 2002 to July 2003
Roll forward of asset base—prudency of capital expenditure incurred in 1999–2004 regulatory period	October 2002 to August 2003
Issues paper on regulatory principles and incentive mechanisms	November 2003
DNSPs written submissions and initial pricing proposals due. DNSPs' public submissions must provide: • pricing proposal for the period with likely customer impacts • low, medium and high growth scenario forecasts from 2002–03 to 2009–10 for customer numbers, all energy throughput, and peak and shoulder throughput • information required by the current PPM • financial forecasts including capital expenditure and operating expenditure for low, medium and high growth scenarios • implied standards of service for each region in the pricing proposal • need to increase standards in specific region(s) and the costs associated with increasing standards • any evidence of customer willingness to pay	April 2003
Release issues paper and summary of DNSP pricing proposals and likely customer impacts	May 2003
General submissions	July 2003
Public forums/consultation	September 2003
Final submissions	September 2003
Release draft report	November 2003
Submissions due on draft report	January 2003
Any required further public consultation	February 2004
Release final report	30 March 2004

Prices and services report

IPART is preparing a consolidated Prices and Services Report. This report brings together information that the DNSPs have provided in their own Price and Service Report and their Regulatory Accounts. The report will be released in September.

Demand management (DM)

IPART released the interim report for its inquiry into 'The role of demand management and other options in the provision of energy ervices' on 30 April. The terms of reference directed IPART to:

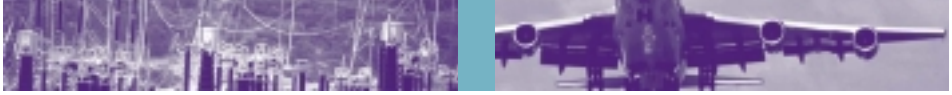
- identify DM options and their economic and technical potential
- assess the extent to which greater use should be made of DM options
- identify any barriers to cost-effective DM
- recommend actions to facilitate DM.

The inquiry has canvassed many different actions under the heading 'demand management'; including load shifting, energy efficiency and distributed generation. The interim report identified three broad drivers for DM: environmental improvements, such as a reduction in greenhouse gases; increased network efficiency and lower network costs; and management of price risks and reduction of end-users' energy costs.

In broad terms the interim report concluded that these drivers are not mutually exclusive and that there appears to be significant potential for measures that both reduce adverse environmental outcomes and end-users energy costs in the long term. However, these different drivers provide a useful way of structuring policy responses. Key initiatives proposed for comment were:

- **In response to environmental drivers**— more effective retail licence conditions on

network national developments telecommunications gas electricity airports rail transport prices ncc state developments network victoria western state developments victoria western australia network national developments telecommunications network gas electricity airports rail transport prices oversight



greenhouse gas emissions and a fund aimed at delivering demand management.

- **In response to network drivers**—improved information disclosure and network investment protocols (including the use of 'standard offers') and trials of congestion-based pricing.
- **In response to price risks and end-user costs**—review of the roll-out of smart meters, better consumer and business education and a stronger role for government as a 'model' consumer.

The interim report was developed through a series of forums and discussions with industry groups, environmental organisations, government agencies, commercial groups and consultants. The tribunal requested feedback on the interim report by 12 June 2002.

Gas

Retail prices

IPART is continuing to collect information for its review of prices for customers served by Origin Energy in Albury, Jindera and a number of Murray Valley towns under its standard supplier's endorsement to its licence. It has also started to collect information for reviews of prices charged by ActewAGL in Queanbeyan, Yarrowlumla and the Shoalhaven area.

Energy licensing

IPART has been requested by the Minister for Energy to review the energy licensing regime in NSW. The main objective of the review is to recommend changes to licence/authorisation conditions or administrative arrangements that will improve licence/authorisation holders' compliance with licensing obligations and the government's energy policies. IPART released its draft report on 14 June 2002 and submissions closed on 16 August 2002. Copies of the draft report and submissions are available from IPART's website at <http://www.ipart.nsw.gov.au>. IPART's final report is expected to completed in October 2002

Water pricing

IPART has just commenced a review of prices for the metropolitan water agencies; Sydney Water Corporation, Sydney Catchment Authority, Hunter Water Corporation, Gosford Council and Wyong Council.

The review will be a mid-term review for the Catchment Authority whose current price path runs until end-June 2005. For the other agencies the review will set a two-year price path for the period from 1 July 2003 until 30 June 2005. IPART's reasons for deciding that it will make a two year price determination include ongoing uncertainty about key aspects of the water agencies' operating environments and because it will enable better alignment of the periods for the price path and operating licences.

IPART has asked the water agencies for submissions by 30 September 2002 with public submissions due by the 15 November. IPART will engage a consultant to undertake a review of the operating and capital costs of the agencies.

Water licensing

A new operating licence for Hunter Water Corporation became operational from 1 July 2002. IPART is due to provide the minister with recommended terms and conditions for a new customer contract for Hunter Water by June 2003.

IPART is conducting mid- term licence reviews of Sydney Water and Sydney Catchment Authority. The associated reports are scheduled to be submitted to the relevant ministers in September 2002. A public workshop was held in July 2002 with particular emphasis on the demand/supply balance and the role of demand management.

Transport

IPART has released its determination of the maximum fares that can be charged for declared monopoly services provided by the NSW Government owned CityRail (metro passenger trains) and STA (bus and ferries). Fare increase of around 2 per cent were granted in line with the increases requested by the agencies. These requested increases were less than the increase in costs, leading to deterioration in the cost recovery rate through the farebox.

The Director-General of Transport NSW has adopted the fare increases recommended by IPART for taxis (4.6 per cent urban, 4 per cent country), private buses (4.2 per cent) and private ferries (5 per cent). Requested fare increases ranged up to 15 per cent for taxis, 5.4 per cent for private buses and 10 per cent for private ferries.

Other

Weighted average cost of capital

IPART released an issues paper on the weighted average cost of capital on 19 August. The paper discusses the various forms of presenting the WACC (pre-tax or post-tax, real or nominal) and summarises current regulatory practice and assumptions. The paper requests comments on:

- whether the WACC should be expressed as a pre-tax or post-tax return
- whether in determining the WACC or modelling the cash flows of the business the statutory tax rate or effective tax rate should be used
- what the appropriate assumptions are for the other WACC parameters.

Submissions on this paper, which are due by 30 September, will help inform IPART's views on the approach to setting the WACC in its forthcoming electricity, gas and water reviews

Contact: Eric Groom
(02) 9290 8475

ACT

Independent Competition and Regulatory Commission (ICRC)

Electricity

Resetting electricity network and retail prices

Prices were reset in June 2002 for the year commencing 1 July 2002. Upon application from ActewAGL Distribution and ActewAGL Retail for prices to be adjusted in accord with the 1999 price direction network and retail prices and miscellaneous charges were considered. Prices were adjusted for inflation at about 2.6 per cent less 1 per cent.

Price path inquiry for electricity network prices commencing 1 July 2004

As an initial step in the determination of prices for electricity networks from 1 July 2004, the Commission decided in June 2002 not to announce a change in the form of regulation to be used in determining the price path. The ICRC is maintaining a hybrid building-block approach. It considered the potential benefits from aligning its approach more closely with NSW and Victoria. It also considered the benefits of providing a stable regulatory environment for both consumers and utilities. The ICRC approves of the ACT market's predictability and the differences in the character of its regulatory environment in remaining with

australia south australia act new south wales tasmania queensland northern territory contacts ncc telecommunications gas electricity airports rail transport prices n
ncc state developments contacts network state developments victoria western australia south australia act new south wales tasmania queensland northern ter

the hybrid approach it adopted before the 1999 inquiry.

Water and sewerage

Resetting prices to commence from 1 July 2002

On application from ActewAGL the ICRC has reset prices for water and sewerage services in the ACT in accordance with the Commission's 1999 price determination.

Price path inquiry for water and sewerage network prices commencing 1 July 2004

The process for setting prices for water and sewerage prices to commence from 1 July 2002 will be undertaken as a joint process for electricity and gas network services. The inquiry will be assisted by IPART.

Gas

Price path inquiry for gas network prices commencing 1 July 2004

As above this inquiry will be undertaken with the assistance of IPART and as a joint project with electricity and water and sewerage. As a joint process the ICRC expects to release a framework issues paper early in September.

Resetting prices to commence from 1 July 2002

Gas network prices were reset consistent with the directions in the gas access arrangement.

Full retail contestability in gas and electricity

The ACT retail gas market to contestability was opened from 1 January 2002. The regulatory arrangements for the gas market were completed late in 2001. The ICRC considered the pass through of gas FRC costs in the first quarter of 2002, negotiating a network price adjustment coincidentally with the IPART decision on gas FRC costs. It used PB Australia as consultants in its assessment of the ActewAGL application.

Full retail contestability in electricity was expected to be implemented from 1 January 2002 in line with NSW and Victoria and consistent with the opening of a contestable gas market. The decision to open the electricity market was delayed, pending the outcome of advice from the ICRC.

The ICRC received a reference for the inquiry in December 2001. In January 2002 an issues paper was released, followed by the draft report in May and the final report in July 2002.

The ICRC could find no substantial quantifiable net benefit for FRC in the short term, although it considered the government's commitments to the National Competition Policy was a strong argument in support of agreeing to the market opening. The ICRC also believed that while there were quantifiable short term costs that there greater long term but less easily quantified benefits from a competitive market.

Taxi and hire car inquiries

The ICRC received references for inquiries into taxi service pricing and reform of the taxi and hire car industries. While the references were for separate inquiries, the ICRC produced joint draft and final reports reflecting the common issues involved in each. The price direction approved marginal increases in taxi prices of 3 per cent. The ICRC also introduced a new taxi price index to assist in the determination of future prices on a consistent basis that better reflected industry costs.

The ICRC also made recommendations on a range of reforms to the taxi and hire car industries, including that:

- the distinction between restricted hire vehicles, unrestricted hire cars and other public passenger vehicles seating up to 9 persons should be removed
- licence fees should reflect the cost of regulation, or make a substantial move in that direction
- licences be issued for 12 months and be non-transferable, but automatically renewable on satisfaction of relevant licence conditions
- cross-border restrictions between ACT and Queanbeyan be removed
- the taxi industry be deregulated, i.e. licence quotas be removed
- the ACT hire car industry be deregulated, licence quotas be removed
- three licence categories be established (taxi, WAT and all other public passenger vehicles)
- maximum fare regulation be maintained for taxis for three years after deregulation then removed
- the monitoring of service standards for taxis and hire cars be improved to ensure that agreed standards are both regulated effectively and enforced adequately to assist the fair operation of a competitive market
- a pick-up fee of $5 be introduced for WAT hirings if the other recommendations are introduced.

Forecast activities in 2002–03

The ICRC's activities in 2002–03 will probably include:

- continued activity on the network pricing reviews for electricity, gas, water and sewerage
- price inquiry for ACTION public transport services
- reset of taxi, electricity; gas and water prices
- documentation of decision-making principles and criteria for the ICRC's responsibilities in the Utilities Act
- inquiry into government concessions in the ACT
- compliance reporting for utility licenses
- publication of a utility performance/ compliance report for 2001–02
- publication of staff research papers on issues relating to water initially
- uptake of metrology coordination role for electricity (presumable also for gas)
- delivery of components of the FRC in electricity decision
- advice on delivery of taxi and hire car reforms.

Tasmania

Office of the Tasmanian Energy Regulator

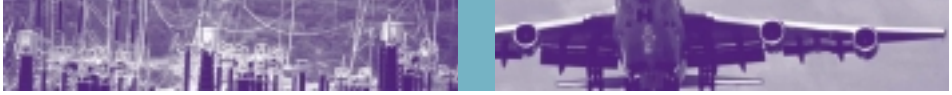
Reliability and Network Planning Panel (RNPP)

Workshop to consider ACCC issues paper on the regulatory test for network investment

A workshop with representatives of the electricity supply industry in Tasmania was held on 14 June 2002 to discuss the ACCC issues paper. The RNPP discussed the workshop outcomes at its June meeting. The recommendations by the panel included that:

- the regulatory test take account of a number of factors including customer and community service level expectations in addition to its

network national developments telecommunications gas electricity airports rail transport prices ncc state developments network victoria western
state developments victoria western australia network national developments telecommunications network gas electricity airports rail transport prices oversight



focus on network reliability, market benefit and capital cost

- the regulatory test be regarded as one part of a broader network planning process that takes account of not only economic and reliability issues but also the social and environmental impacts of network upgrades and extensions that are dealt with through a separate, but complementary, land use planning and approval process
- thresholds be applicable at the project level, defined in terms of minimum service standards by location:
  - for projects below the threshold, a cost-effectiveness test should apply
  - for projects at the threshold or above the threshold, the market benefit tests should apply
- the setting of a cost-based threshold should be left to jurisdictional discretion as it will depend on the number of projects in the pipeline, the importance of these projects and the cost.

East Hobart substation redevelopment

At its May 2002 meeting, the RNPP considered a proposal by Aurora Networks to upgrade the East Hobart substation as part of the ongoing Hobart area supply upgrade.

The Tasmanian Electricity Code (TEC) provides for a network service provider to seek endorsement from the RNPP that proposed capital investment satisfies the regulatory test specified by the TEC. If the RNPP recommends the proposal and the regulator determines that an augmentation of the network is justified, the network service provider may arrange for the augmentation to be undertaken.

Review and addendum to frequency standards

A review of the power system frequency standards was undertaken by the system controller resulting in the recommendation that there be no changes to the present standards under normal conditions. However, an addendum to the power system frequency operating standards was adopted to include reference to normal frequency restoration times. Work is being undertaken to develop standards when islanding conditions occur in the system.

Licence applications

Issue of Roaring 40's generation licence

Roaring 40's, a wholly owned subsidiary of Hydro Tasmania, was granted a licence on 31 May 2002 to generate up to 10.5 MW of wind generated power at the Woolnorth Wind Farm in the state's north-west. The second part of the project, which will produce 54 MW of power, is expected to begin next year, with construction completed by the end of 2003. Hydro Tasmania intends to gradually expand the Woolnorth development to 130 MW, but this expansion ultimately depends on Basslink being available to export power.

Tasmanian natural gas project

On 14 August 2002 Duke Energy International Tasmania Holdings Pty Ltd was granted a pipeline licence under the *Gas Pipelines Act 2000* (Tas) for the operation and maintenance of the Tasmanian gas pipeline (TGP) which runs from Five Mile Bluff (northern Tasmania) to Bridgewater (south) and to Port Latta (north-west). However, the licence is only effective at this stage for operation of the pipeline section from Five Mile Bluff to Bell Bay Power Station and the Bell Bay industrial estate.

The conversion of one of Bell Bay Power Station's two generating units from oil-fired to gas-fired is in its final stages. Commissioning of the TGP began on 15 August 2002 and marked the commencement of gas supply to Tasmania.

The Tasmanian Government's tender process for the distribution and retailing of natural gas by franchises is continuing with a distributor and retailer yet to be selected. Licences are expected to be issued to the franchisees late this year.

Code changes

Vegetation management

In July 2002 the regulator approved a proposal from the code change panel (CCP) to incorporate a code of practice for the management of vegetation around distribution powerlines into the Tasmanian Electricity Code. This was the culmination of two years of work involving extensive consultation. The CCP's report to the regulator containing its recommendations on the chapter are available on the regulator's website at: <http://www.energyregulator.tas.gov.au>.

Bass Strait Islands code chapters

The Hydro-Electric Corporation Pty Ltd (Hydro Tasmania) has responsibility for network and generation operations and retailing on the Bass Strait Islands. The Tasmanian Electricity Code (code) presently regulates only retailing activities carried out on the Islands. The Office has developed a proposal for a new chapter of the code covering generation, distribution, system security and network operation functions on the islands. The proposal has received input from Hydro Tasmania, and its contractor for operations on the Bass Strait Islands, Aurora Energy Pty Ltd. The proposal will be submitted to the Code Change Panel for review and a draft code chapter will be issued for public consultation in October of this year.

Pricing

Electricity pricing investigation

In preparation for forthcoming pricing investigation the regulator prepared and issued for comment the paper entitled, *Investigation into the pricing policies of the electricity supply industry 2002–03: declaration of services to be investigated, issues paper* on 28 June 2002. The Office is currently assessing comments received from all relevant electricity entities and other interested parties. The regulator is expected to make his declaration and issue the notice to investigate and terms of reference for the investigation by the end of August 2002. Work has already begun on a number of aspects of the investigation, including the development of a paper examining the proposed framework for the investigation. The investigation should be completed by the third quarter of 2003.

Urban water pricing audit

The Government Prices Oversight Commission (GPOC) was engaged by the state government to assess whether Tasmania's councils are complying with Tasmania's national competition policy (NCP) water reform obligations as they apply to urban water and wastewater services. The primary focus of the audit was to examine whether councils are recovering sufficient revenue from their water and wastewater businesses to recover all costs, but not so high as to provide a rate of return that indicates monopoly profits.

The audit determined that there was substantial compliance with the guidelines. The Department of Premier and Cabinet and the Department of Treasury and Finance are currently discussing the outcomes with those councils where non-compliance was identified, to determine a strategy for adjusting revenue recoveries to ensure compliance can be achieved within one or two years, depending on the level of adjustment.

australia south australia act new south wales tasmania queensland northern territory contacts ncc telecommunications gas electricity airports rail transport prices n
ncc state developments contacts network state developments victoria western australia south australia act new south wales tasmania queensland northern ter

The next audit will begin in November 2002 for completion before the March 2003 report to the National Competition Council.

Ring fencing

In June 2002, following public consultation, the regulator issued electricity distribution ring fencing guidelines focusing on the accounting ring fencing and regulatory reporting required of Tasmania's single distributor/retailer, Aurora Energy. The guidelines are consistent with the recommendations made to the National Regulator's Forum by the working group on accounting issues, and ensure that the regulator has adequate financial information when undertaking the next electricity pricing investigation.

Contact: Andrew Reeves
(03) 6233 5665

Queensland

Queensland Competition Authority (QCA)

Local Government

Payments to Queensland's 125 councils arising from the QCA's fourth review of councils' progress in implementing competition reforms were approved by the ministers on 7 June 2002.

The fifth review of reforms implemented by Queensland's 125 councils in respect of 730 nominated business activities and 110 COAG water activities has now commenced. This review covers competition reforms implemented to 30 June 2002 and includes an additional 217 business activities and 18 COAG water activities nominated by councils since the previous review.

A report and recommendations for payments to councils under the Local Government Financial Incentive Payments Scheme will be submitted to the ministers by 28 February 2003.

Contacts: Rick Stankiewicz
(07) 3222 0510

Sean Andrew
(07) 3222 0516

Water

In November 2001 the QCA released for public comment a draft report outlining its recommendations on the pricing practices of the Gladstone Area Water Board (GAWB).

The QCA has received several submissions in response to the draft report and a final report is currently being finalised. Major issues being considered include optimising the asset base, cost allocation between customers and regulatory treatment of drought management costs.

The QCA also received a ministerial direction to assess certain matters relating to gazetted prices for channel and river irrigators receiving water infrastructure services (including harvesting, storage, distribution and reticulation) provided by SunWater within the Burdekin Haughton Water Supply Scheme. A draft report is due to be released on 30 August 2002.

The water supply activities of the Townsville Thuringowa Water Supply Board (NQ Water) were assessed against the QCA's criteria for the identification of government monopoly business activities and the results submitted to ministers.

Contacts: Rick Stankiewicz
(07) 3222 0510

George Passmore
(07) 3222 0545

Electricity

In March 2002 the QCA approved ring fencing protocols submitted by both distributors in accordance with section 5 of the QCA's ring-fencing guidelines. The protocols address issues relating to the management of confidential information by the distributors.

In May 2002 the QCA approved new distribution tariff schedules for 2002–03, for both distribution networks. Submissions from the distributors demonstrated that:

- the proposed prices were expected to recover revenue in 2002–03 within the revenue cap set for that year
- the proposed prices were consistent with the side constraints set for the various customer groups
- the proposed prices did not involve cross-subsidies
- the structure of prices (the balance of fixed, demand, and energy components) was consistent with economic pricing principles.

The QCA approved distribution loss factors to apply to both networks for 2002–03. This followed an independent assessment of the integrity and appropriateness of the method used by the distributors to calculate loss factors which endorsed the approach adopted by the distributors.

The QCA also progressed the implementation of requirements in the Final Determination relating to regulatory accounting and information reporting, including service quality measures. The QCA released its regulatory accounting and information guidelines, and its Service Quality Guidelines in June 2002. Both documents are available on the QCA website. The format of the regulatory accounts and the service quality reports is closely aligned to the templates developed as part of the National Regulatory Reporting Requirements. The distributors commenced reporting quarterly service quality measures in March 2002.

As foreshadowed in its final determination on electricity, the QCA has embarked on a study to investigate options for including recognition of service quality in future regulatory arrangements. The study will look at the characteristics of service quality incentive regimes, including what measures to target, regulatory approaches to service quality, experiences in other jurisdictions and how any preferred approach would interact with other parts of the regulatory regime.

Contact: Gary Henry
(07) 3222 0504

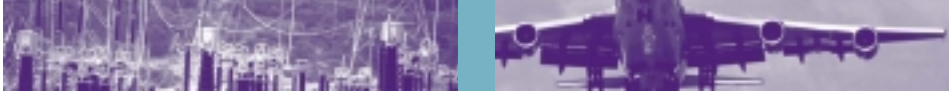
Gas

Since the release of its final approval of the access arrangements on 21 December 2001, the QCA has been addressing several issues associated with the implementation of the approved access arrangements. The main issues include ring-fencing compliance and reporting, and the establishment of regulatory accounting and service quality reporting arrangements.

In accordance with their approved access arrangements, Envestra and Allgas submitted revised tariffs to the QCA in April 2002. The QCA was satisfied that these revised tariffs were consistent with the price paths and side constraints established in the access arrangements and approved the tariff variations in May 2002. These revised tariffs, which are available on QCA's website, became effective on 1 July 2002.

In May 2002 the QCA was advised by the Queensland Treasurer that, after considering the requirements of the code and the recommendation of the National Competition Council, he had decided to revoke coverage of the Roma gas distribution pipeline system. Effective from 24 May 2002 the QCA ceased to have any regulatory responsibilities for the Roma system.

Contact: Gary Henry
(07) 3222 0504



Rail

The QCA approved QR's access undertaking in December 2001. Since then the QCA has been engaged in several matters to give effect to Queensland's rail access arrangement.

In June 2002 the QCA approved QR's cost allocation manual. The manual establishes the method by which QR will separately identify its below rail costs from its above rail costs. The manual also sets out the pro forma financial statements for public reporting of QR's below rail financial information. The QCA also approved the Queensland Audit Office as the independent auditor of those below rail financial statements.

In March 2002 QR submitted for the QCA's approval a copy of a standard access agreement for coal carrying services. Once approved, the agreement will form the basis for negotiations between QR and an access seeker for train services. QR's undertaking provides scope for both QR and an access seeker to agree to vary the terms and conditions of the standard access agreement. However, failing any such agreement, an access agreement must be consistent with the terms of an approved standard access agreement; that is, the approved standard access agreement would be the default agreement if negotiations failed. The QCA expects to reach a decision on this matter in the coming months.

In the second half of 2002 the QCA will be involved in assessing new reference tariffs for coal train services in central Queensland and a review of some yard control services provided by QR also in central Queensland.

Copies of the QCA's decisions on QR's 2001 access undertaking together with a copy of QR's approved undertaking are available on the QCA website

Contacts: Paul Bilyk
(07) 3222 0506

Ports

In September 2001 the Queensland Government executed a long-term lease for the Dalrymple Bay Coal Terminal (DBCT). As part of the lease process, the government established that the port would be subject to economic regulation based on:

- declaration under Part 5 of the QCA Act of the services provided by DBCT
- a requirement that the lessee submit (through the lessor) an access undertaking to the QCA detailing the negotiation pricing framework for access.

The QCA expects to receive an access undertaking for the DBCT in late 2002.

Contacts: Paul Bilyk
(07) 3222 0506

Northern Territory

Utilities Commission

Review with competition in the NT electricity market

At the government's request, and in light of recent developments, the Commission is undertaking a review of the effectiveness of contestability to date in both the generation and retail sectors of the NT electricity supply industry. As at 30 June 2002, around 210 customer sites were contestable, representing 34 per cent of total electricity consumption in the regulated power systems. There are two retailers (of which one is small) and now only one generation company. The Commission's findings, and recommendations for any changes to improve the effectiveness of regulatory and market arrangements, will be provided to the Regulatory Minister by the end of August 2002.

Following its consideration of these findings and recommendations, the government is expected to announce the terms of reference for a 'public benefits test' review of FRC in the NT. Only if a net public benefit is established will 1 April 2003 see contestability down to 160MWh pa and full retail contestability implemented two years later.

Revenue caps and network tariffs for 2002–03

In June 2002 the Commission published a decision paper setting out the rationale for its revenue cap determinations and tariff approvals for 2002–03. The paper also discussed issues surrounding the discounting of network tariffs and network access charges for embedded generation. The Commission also foreshadowed a number of issues to be considered in the lead up to the second regulatory control period commencing on 1 July 2003.

Benchmarking review

Agreement has been reached between the Commission and the Power and Water Corporation on the scope and timetable for a benchmarking study of Power and Water's network operations and maintenance costs. The Commission will use the findings of this study as a basis for establishing the level of efficient network costs when assessing regulated revenue in the second regulatory control period. It is anticipated that Power and Water will manage the study, subject to the Commission's approval of the terms of reference and the consultant engaged to undertake the study.

Codes and rules

On 31 July 2002 the Commission approved Power and Water's information sharing procedures, in accordance with clause 5 of the NT Electricity Ring-Fencing Code.

On 2 August 2002 the Commission approved the Power System Control Technical Code submitted by the Power and Water Corporation.

On 30 August the Commission expects to approve a Contestable Customer Supply Code requiring licensed retailers to observe certain non-discriminatory and arms' length arrangements on marketing activities with respect to soon-to-be contestable customers, the transfer of contestable customers between retailers, and continuity of supply at the end of a contestable customer's grace period or at the expiry of a negotiated contract.

Licensing of independent power producers and operators of isolated systems

At the commencement of the current regime on 1 April 2000, exemptions from the need to hold a licence were issued to certain independent power producers (IPPs), in response to the complexity of some arrangements. These entities have now been brought under the licensing regime.

The Commission is also working with parties who are the sole providers of all electricity services in isolated townships to develop appropriate licence conditions for their special circumstances, and expects to bring these parties under the licensing regime shortly.

Contact: Anne-Marie Hart, Executive Officer
(08) 8999 6822

australia south australia act new south wales tasmania queensland northern territory contacts ncc telecommunications gas electricity airports rail transport prices n
ncc state developments contacts network state developments victoria western australia south australia act new south wales tasmania queensland northern ter

Contributing to Network

If you are interested in providing an article to be published in *Network*, please contact Katrina Huntington on (03) 9290 1915 or email to <katrina.huntington@accc.gov.au>.

To subscribe to *Network*, cancel your subscription or update contact details—
mail, fax or email your details to:

Katrina Huntington
Network Coordinator, ACCC
GPO Box 520J
Melbourne VIC 3001

Facsimile: (03) 9663 3699

Email: katrina.huntington@accc.gov.au

Your details should include—
Your name, postal address, telephone number, fax number and email address.

Farewell

Michael Rawstron (electricity) and Kanwaljit Kaur (gas) are leaving the Commission. Both will be taking up positions in the Department of Treasury.

Contacts

ACCC		http://www.accc.gov.au	
	Regulators Forum issues	Mr Joe Dimasi	(03) 9290 1814
	Newsletters	Ms Katrina Huntington	(03) 9290 1915
	Airports	Ms Margaret Arblaster	(03) 9290 1862
	Electricity	Mr Sebastian Roberts	(03) 9290 1867
	Gas	Mr Russell Phillips	(02) 6243 1259
	Telecommunications	Mr Michael Cosgrave	(03) 9290 1914
NSW	Independent Pricing and Regulatory Tribunal (IPART)	http://www.ipart.nsw.gov.au	
	Dr Tom Parry	(02) 9290 8411	
VIC	Essential Services Commission	http://www.esc.vic.gov.au	
	Dr John Tamblyn	(03) 9651 0223	
TAS	Govt Prices Oversight Commission (GPOC)	http://www.gpoc.tas.gov.au	
	Mr Andrew Reeves	(03) 6233 5665	
	Office of the Tasmanian Energy Regulator (OTTER)	http://www.energyregulator.tas.gov.au	
	Mr Andrew Reeves	(03) 6233 6323	
QLD	Queensland Competition Authority (QCA)	http://www.qca.org.au	
	Mr John Hall	(07) 3222 0500	
WA	Office for the Gas Access Regulator (*Off*GAR)	http://www.offgar.wa.gov.au	
	Dr Ken Michael	(08) 9213 1900	
	Office of Water Regulation	http://www.wrc.wa.gov.au/owr	
	Dr Brian Martin	(08) 9213 0100	
SA	South Australian Independent Pricing and Access Regulator (SAIPAR)	http://www.saipar.sa.gov.au	
	Mr Graham Scott	(08) 8226 5788	
	South Australian Independent Industry Regulator (SAIIR)	http://www.saiir.sa.gov.au	
	Mr Lew Owens	(08) 8463 4450	
ACT	Independent Competition and Regulatory Commission (ICRC)	http://www.icrc.act.gov.au	
	Mr Paul Baxter	(02) 6205 0799	
NT	Utilities Commission	http://www.utilicom.nt.gov.au	
	Mr Alan Tregilgas	(08) 8999 5480	

Produced by the ACCC Publishing Unit 10/02