

NETWORK

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Regulator in profile

Paul Baxter

Paul Baxter was appointed as Commissioner of the Energy and Water Charges Commission in 1996 to undertake the first independent inquiry into electricity, water and sewerage charges in the ACT. In 1999 he was re-appointed for a five-year term as Commissioner for the Independent Pricing and Regulatory Commission (IPARC), which was given legislative force in 1997. In 2000 IPARC was renamed and restructured. Mr Baxter's appointment continues as the senior Commissioner of the expanded Independent Competition and Regulatory Commission (ICRC).

Mr Baxter is also a partner in PricewaterhouseCoopers, heading the Economic Studies and Strategies Unit (ESSU). His regulatory assignments cover much of the Pacific Islands and South-East Asia, as well as all States and Territories in Australia. Before joining PricewaterhouseCoopers, he spent 14 years delivering economic policy and statistical analysis to Government and the United Nations.

He is also a member of the two-man Independent Audit Group, an independent advisory body to the Murray Darling Basin Ministerial Council, and an Associate Commissioner of the ACCC.

The Independent Competition and Regulatory Commission (ICRC)

The ICRC is an independent statutory authority. Their objectives are to:

- promote effective competition in the interests of consumers;
- facilitate balance between efficiency and environmental and social considerations; and
- ensure non-discriminatory access to monopoly and near monopoly infrastructure.

The functions of the ICRC as defined in its Act are:

- providing price directions;
- providing recommendations about price regulation;
- providing advice to the Minister about proposed access agreements;
- arbitrating disputes about access to services under access regimes;
- investigating and reporting on matters referred by the Minister and other referring authorities;
- investigating and reporting on competitive neutrality complaints;
- investigating and reporting on government-regulated activities;
- any function incidental to functions mentioned; and
- any other function conferred by another law of the Territory (namely the utilities legislative package).

The ICRC issued its final report on the ActewAGL gas access arrangement on 28 November 2000.

Revisions were considered in December 2000 and the final approval was issued on 17 January 2001.

Currently the ICRC has references for investigations into pricing for taxis and ACTION buses for the periods 1 July 2001 to 30 June 2003 and 30 June 2004 respectively. The ICRC will also consider an alternative pricing method to the taxi cost index that the ACT has been using for the past decade.

The ICRC also is investigating a competitive neutrality complaint and is gearing up to implement the utilities legislation passed by the Legislative Assembly on 30 November 2000. The utilities package comprehensively restructures regulation of energy and water distribution and retail businesses in the ACT. From 1 January 2001 the ICRC will regulate utility businesses and issue licences.

Further information is available either on the ICRC website at <<http://www.icrc.act.gov.au>> or from Ian Primrose on ian.primrose@act.gov.au or (02) 6205 0779.

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National developments

Telecommunications

Regulation review

The Productivity Commission is currently reviewing the telecommunications-specific competition provisions contained in the Trade Practices Act and other legislation, and is expected to report in June 2001.

The ACCC made submissions to the review in August and November, which are available at <http://www.pc.gov.au>.

Review of Telstra retail price controls

The Minister for Communications, Information Technology and the Arts has directed the ACCC to undertake a review of the price control arrangements on Telstra and to report by late January 2001.

The ACCC issued a discussion paper in September with public hearings held in each State and Territory during early November 2000. The ACCC released a draft report on 22 December 2000, and is looking to finalise its review in accordance with the Ministerial Determination.

Telstra's ADSL roll-out

Following complaints concerning the roll-out of Telstra's retail asynchronous digital subscriber line (ADSL) service, the ACCC has asked Telstra to provide it with detailed, weekly reports on the way it intends to provide competitors with prompt access to its copper network. The ACCC also requested regular reports on the take-up of Telstra's ADSL technology.

ACCC pay television declaration

A decision of the Full Federal Court of Australia in August upheld the validity of the ACCC's 1999 analogue pay television declaration. This decision means that, subject to capacity being available, Telstra must provide access to its hybrid fibre-coaxial (HFC) cable network for the supply of pay television services. The decision is on appeal to the High Court.

Pricing principles for Telstra's local loop services

The ACCC has issued a discussion paper on the pricing of the unconditioned local loop service, which was declared last year. Cost modelling by the ACCC suggests that Telstra's proposed charges were in excess of those which could be justified using an efficient, forward-looking cost methodology. The ACCC currently has four arbitrations before it for this service.

Pricing principles for non-dominant fixed-line networks

The ACCC has issued a discussion paper on pricing principles for access to network services supplied by non-dominant networks. The paper concludes that a prescriptive pricing rule is inappropriate for such services. It states, however, that when the ACCC is conducting an arbitration or assessing an undertaking, it would be reluctant to set or accept a charge which was higher than the efficient costs incurred by Telstra for the supply of an analogous service.

Telstra's proposed wholesale charges for PSTN access

The ACCC has issued its final report rejecting Telstra's proposed

wholesale charges. Cost modelling by the ACCC suggested that the proposed charges were approximately 30 per cent higher than that incurred by an efficient operator in a competitive market.

Regulation of wholesale local calls

Following an application from Telstra for an exemption from its obligations to supply the wholesale local call service to its competitors in particular CBD areas, the ACCC issued a discussion paper on the future scope of wholesale local call regulation.

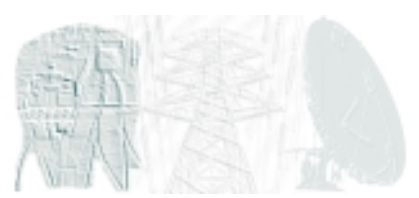
The ACCC is now evaluating submissions from interested parties on whether an exemption order should be made.

Telstra has subsequently sought a further exemption. The ACCC is in the process of commissioning a facilities audit, partly to determine the extent of an infrastructure roll-out capable of delivering local calls.

Access disputes (arbitrations)

The following telecommunications access disputes have been notified to the ACCC under part XIC of the Trade Practices Act since June 2000.

- C7 notified a dispute with Telstra Multimedia, Foxtel and related entities concerning access to Telstra's cable network.
- One.Tel, dingo blue and WorldxChange notified disputes with Telstra concerning terms and conditions of access to the local carriage service.
- AAPT, One.Tel, Primus, Optus networks and XYZed notified disputes with Telstra concerning charges for access to the unconditioned local loop service.
- The Internet Group Limited (Ihug), Chime Communication and WorldxChange notified a dispute



with Telstra concerning domestic PSTN terminating access as access providers — for data calls to ISPs.

- Telstra has notified a dispute with PowerTel and Primus regarding domestic PSTN terminating as access providers — for data calls to ISPs.
- Cable & Wireless Optus notified a dispute with Telstra concerning number portability.
- WorldxChange has notified an access dispute with Telstra concerning domestic GSM terminating access.

Final determinations issued since June 2000:

- AAPT and Telstra (charges for PSTN access); and
- Primus and Telstra (charges for PSTN access).

These determinations have been appealed by Telstra to the Australian Competition Tribunal:

- Flow and Telstra (charges for PSTN access); and
- Macquarie and Telstra (regarding DDAS).

Contact: Michael Cosgrave ACCC (03) 9290 1914

Gas

The ACCC's forum on issues surrounding the valuation of sunk assets within the regulatory framework was held on 16 June 2000.

For information about the forum contact Kanwaljit Kaur on (02) 6243 1259 or Ainslee Wilton on (02) 6243 1264. Notes can be purchased from Maxine Helmling on (02) 6243 1246.

Electricity

Authorisations

National Electricity Code

Rebidding, VoLL scaling and settlement statements

On 15 March 2000 the National Electricity Code Administrator (NECA) requested authorisation to amendments of the National Electricity Code (code) to introduce modified rules for rebidding. On 27 March 2000 NECA amended this application by including code changes relating to revising settlement statements and to VoLL scaling (VoLL is the value of lost load and is the ceiling on the wholesale spot price).

The proposed rebidding code changes require market participants to provide reasons for any rebid made and allow for these reasons to be published by the National Electricity Market Management Company (NEMMCO). The code changes would also alter the arrangements for market participants to notify NEMMCO of dispatch inflexibilities.

The proposed VoLL scaling code changes would introduce mechanisms to address the inability to simultaneously meet a number of market objectives at times of system stress.

The settlement statement arrangements aim to introduce a mechanism to allow NEMMCO to adjust settlement payments when errors in processing are detected or more accurate information becomes available.

On 1 November 2000 the ACCC made a draft determination to accept the proposed code changes subject to a number of conditions.

GST and the wholesale electricity market

On 15 June 2000 NECA requested authorisation of amendments to the code to accommodate the introduction of the Goods and Services Tax (GST) from 1 July 2000. The ACCC granted interim authorisation to these amendments on 21 June 2000.

The proposed code changes specified that prices quoted within the National Electricity Market (NEM), and for settlement residue auctions, would be GST exclusive. The changes also stipulated the obligations of NEM participants and the NEMMCO for collecting the GST.

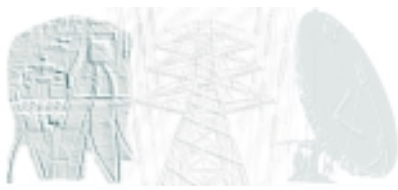
On 1 November 2000 the ACCC made a draft determination accepting the code changes on the basis that operating the NEM, as a GST exclusive market, is consistent with the ACCC's GST guidelines. A number of draft conditions were proposed to correct errors in the code drafting.

Full retail competition

On 11 August 2000 NECA submitted applications for authorisation of amendments to the code to facilitate the introduction of full retail competition (FRC). The code changes:

- introduced three new metering installation types to facilitate a lower cost solution to enable smaller customers to switch retailers; and
- require a State Government Minister to appoint a metrology coordinator for the development of metrology procedures to facilitate the conversion of metering data into a format suitable for use in the current wholesale market settlements system.





The ACCC granted interim authorisation to the arrangements on 25 October 2000, subject to a number of conditions. These conditions require:

- the jurisdictional regulator to become the metrology coordinator by the date that FRC is implemented in that jurisdiction and undertake a review of the initial metrology procedures;
- the metrology procedures to be prepared and approved with a view to achieving the following objectives:
 - the promotion of an efficient market;
 - the avoidance of unreasonable discrimination between market participants;
 - minimisation of the barriers to entry for competing retailers; and
 - technical soundness and economic efficiency.
- each metrology coordinator to develop a process for changes to the metrology procedures to be prepared by other persons and approved by the metrology coordinator; and
- the jurisdictional regulator to undertake a review of metering installations types five and six by 31 December 2003.

The ACCC will be conducting further consultation and expects to release a draft determination in early 2001.

Contact: Mike Rawstron ACCC
(02) 6243 1249

Airports

Sydney Airports Corporation Ltd aeronautical pricing proposal

On 3 October 2000 Sydney Airports Corporation Limited (SACL) lodged its revised draft aeronautical pricing proposal with the ACCC. The proposal is available on the ACCC's website at <<http://www.accc.gov.au>>. The ACCC sought submissions on the proposal from airport users and other interested parties.

The average price increase proposed is around 116 per cent, with most of the increase for regular public transport (RPT) users driven by changes to the runway charge. SACL estimates that the proposed charges would generate \$205.4 million in revenue in 2000–01 if implemented by 1 July 2000 compared to \$95 million if charges remained unchanged.

The proposed charges do not include the impact of the GST. It is understood that SACL will provide a separate notification in relation to this matter.

The proposed prices are based on an 'allowable revenue' target. Prices are calculated from the allowable revenue target using traffic projections with adjustments for the proposed restructure of charges.

SACL has calculated this allowable revenue on a 'dual till' basis. The dual till approach to pricing conceptually separates the aeronautical from the non-aeronautical functions of an airport. It identifies those costs providing aeronautical services and uses them as the basis for setting aeronautical charges. This approach necessitates an identification of those services that should be considered as aeronautical, along with an allocation of the costs that are common to aeronautical and non-aeronautical functions.

By contrast 'single till' pricing, which has traditionally been used in airport pricing, sets prices on the basis of an airport's overall performance. Total costs of the whole airport are calculated, along with non-aeronautical revenues. Aeronautical prices are then set as a residual to meet a rate of return target for the airport as a whole. Under this approach the allocation of costs between aeronautical and non-aeronautical services is less significant, given that the allowable revenue figure is based on total costs. In general, aeronautical revenues are lower under the single till approach than under the dual till approach. The single till approach has been used in the UK regulatory regime but is now subject to a review.

SACL has used an opportunity cost methodology to value land based on the cost of acquiring similar land to construct another airport. A depreciated optimised replacement cost (DORC) methodology is used for other assets.

The ACCC held a public discussion forum on 13 December on the main issues associated with this proposal. A draft decision is expected shortly and a final decision before Easter.

Australian Rail Track Corporation access undertaking

The ACCC has received a draft access undertaking from the Australian Rail Track Corporation (ARTC) covering third party access to tracks on the interstate network in Victoria and South Australia. The draft undertaking has been circulated to key industry participants and other interested parties for comment. Pending feedback received from industry, it is likely that ARTC will submit a formal undertaking to the ACCC in the near future for assessment under part IIIA.

Contact: Margaret Arblaster ACCC
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National Competition Council (NCC)

The National Competition Council is a federal statutory authority established in November 1995 by the *Competition Policy Reform Act 1995*. It has responsibility for recommending on applications for declaration of access to services provided by nationally significant infrastructure and the certification of access regimes under part IIIA of the Trade Practices Act.

Declaration of services provided by infrastructure facilities

On 9 January 2001 the NCC accepted an application for declaration of certain electrical transmission and distribution services provided by Western Power Corporation. The application was made by Normandy Power Pty Ltd, NP Kalgoorlie Pty Ltd and Normandy Golden Grove Operations Pty Ltd.

The applicants are seeking access to electrical transmission and distribution services provided by Western Power Corporation for the transmission of electricity from electricity generators, particularly the Parkeston power station, to consumers in the south-west of Western Australia. The application covers electrical transmission and distribution systems situated in the south-west of Western Australia (known as the South West Interconnected System), servicing the area bounded by Kalbarri in the north, Kalgoorlie in the east, Albany in the south and the western coast of Western Australia.

The NCC is preparing a discussion paper on issues raised by the application, which it expects to release in February. On its release, the NCC will forward the discussion paper to interested parties who have registered with the NCC. There will then be a further six-week period for parties to provide the council with

written submissions on the application.

The NCC's recommendation on the application will be made to the Western Australian Premier.

Certification of State and Territory access regimes

NSW gas

The NCC conveyed its recommendation on certification of the NSW Gas Access Regime to the Commonwealth Minister for Financial Services and Regulation in March 1999.

The Minister's decision has been delayed pending resolution of cross-vesting issues arising from the High Court decision in *Re Wakim: ex parte McNally*.

Queensland gas

The Queensland Government sought certification of its gas pipelines access regime in September 1998. The application characterised the regime as Queensland's implementation of the National Gas Pipelines Access Code (code). The NCC had previously assessed in September 1997 that the code satisfies the certification requirements set out in the Competition Principles Agreement.

The Queensland regime, however, includes a number of derogations (variations) affecting major transmission pipelines. The derogations cover matters such as access prices and information flows to access seekers. Given that Queensland sought certification of its regime as its implementation of the code, it was necessary for the NCC to consider whether the derogations remain broadly consistent with that code. If so, the NCC could still draw on its earlier assessment that the code is an effective regime.

To progress this matter, the NCC engaged the ACCC to advise whether regulatory processes — including tariff outcomes — for the derogated pipelines are broadly

consistent with the code, and the extent to which differences are significant. At the same time, the NCC launched a public consultation process.

The ACCC completed a substantial report in April 2000. It reported that the derogations significantly alter a number of regulatory processes, tariff and other outcomes from those in the code. The NCC considers the variations to be sufficiently material that it cannot regard the Queensland regime as a consistent application of the code.

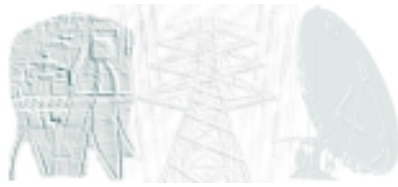
As such, the NCC has been obliged to consider the regime on a stand-alone basis. Following consideration of public submissions, consultancy work undertaken for the NCC by the ACCC, and its own deliberations, the NCC considers that the Queensland regime does not currently satisfy the certification principles. Fundamental concerns include the impact of the derogations on regulatory and dispute resolution processes, information flows to access seekers and review arrangements. To date, Queensland has not proposed any changes to meet the NCC's concerns. The NCC is unlikely to recommend that the regime be certified as effective in its current state.

The NCC notes that, while the regime is not certified, it became operational in May 2000 and obligations on pipeline owners now apply.

Eastern gas pipeline and Moomba to Sydney pipeline system final decisions

On 16 October 2000 the Commonwealth Minister for Industry, Science and Resources, the Hon. Nick Minchin, decided to cover the eastern gas pipeline under the national gas pipelines code.

The eastern gas pipeline transports natural gas between Longford, Victoria and Horsley Park in Sydney. The Minister's decision followed on



Queensland pipelines subject to derogations

Pipeline licence (PPL) number	Description of pipeline	Revisions commencement date (derogation terminates)
2	Wallumbilla to Brisbane	29 July 2006
24	Ballera to Wallumbilla	30 December 2016
30	Wallumbilla to Rockhampton via Gladstone	The sooner of: — the date the capacity of the pipeline exceeds the nominal capacity specified in the pipeline licence or — the date the regulator approves revisions that must be submitted by 31 August 2016
41	Ballera to Mt Isa	1 May 2023

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application on 7 January 2000 for coverage by AGL Energy Sales and Marketing Ltd.

On 27 October 2000 the owner of the eastern gas pipeline, Duke Energy, lodged an application for review of the Minister's decision with the Australian Competition Tribunal.

On 16 October 2000 the Minister decided against revocation of coverage of parts of the Moomba to Sydney pipeline system. East Australian Pipeline Ltd had applied for revocation of these parts of the pipeline on 28 April 2000.

The Minister's decisions in the case of both pipelines were in accordance with recommendations by the NCC.

Queensland gas pipelines — revocation applications

The NCC received applications in August 2000 to revoke coverage of four gas pipelines from the provisions of the *Gas Pipelines Access (Queensland) Act 1997*.

The applications relate to the following pipelines, all located in Queensland (see table below).

On 3 November 2000 the NCC recommended that coverage of each pipeline be revoked. It found that regulated access was unlikely to promote competition in another market and was contrary to the public interest, as the costs outweighed the benefits of regulation.

Pipeline licence	Name/route	Operator
PPL61	Peabody-Mitsui pipeline	Peabody Moura Mining Pty Ltd
PPL3	Kincora to Wallumbilla	Oil Company of Australia Ltd
PPL26	Dawson Valley to Duke Queensland gas pipeline	Oil Company of Australia
	Dalby Gas distribution network	Dalby Town Council

The NCC's final recommendation in respect of the three transmission pipelines was made to the Hon. Nick Minchin, Commonwealth Minister for Industry, Science and Resources.

The NCC's final recommendation on the Dalby distribution system was made to the Hon. Tony McGrady MLA, Queensland Minister for Mines and Energy.

Under the code, the Ministers have 21 days to make their respective decisions from the date they receive the NCC's recommendations.

While the NCC dealt with the applications jointly as a matter of convenience, the applications were separate matters, and the NCC made separate recommendations in relation to each application. Two reports have been provided: one on the transmission pipelines, and one on the Dalby network.

On 23 November the Hon. Senator Nick Minchin decided to revoke coverage of the three transmission pipelines.

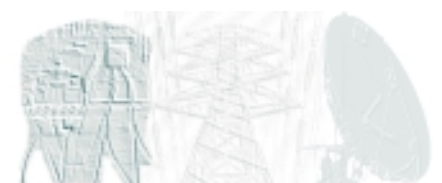
On 28 November the Hon. Tony McGrady MLA decided to revoke coverage of the Dalby network.

All decisions were in accordance with the NCC's recommendations.

Matters before the Australian Competition Tribunal

On 27 October 2000 Duke Energy made an application to the Australian Competition Tribunal for review of the decision to cover the eastern gas pipeline under the code.

The Australian Competition Tribunal has listed the matter for hearing for two weeks commencing 29 January 2001.





Western Australian rail

The Western Australian Government applied for certification of the WA Rail Access Regime in February 1999. The NCC's public process identified a number of issues, subsequently addressed by Western Australia. Among the refinements agreed to by the State were the creation of an independent rail access regulator with broad powers to enforce compliance with the regime.

The NCC released a draft recommendation in September 1999, stating its preliminary view that the amended WA regime would be an effective access regime. It received eleven submissions on the draft and liaised further with key stakeholders. As a result of the processes, the NCC identified a number of additional concerns. Agreement was reached with Western Australia on most of these issues.

The NCC was not able to reach agreement with WA on a way to resolve issues relating to interstate rail operators. This left a significant issue outstanding. The WA Government withdrew its application for certification in November 2000.

Northern Territory electricity

In December 1999 the NT Government lodged a regime covering its electricity network, requesting that the NCC consider recommending to the Minister that he certify the regime.

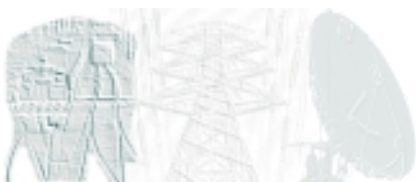
The NCC subsequently issued an issues paper and called for public comment on the regime. It received submissions from potential new entrants and significant users of NT electricity.

The NCC reviewed these submissions and a report from its consultant, Network Economics Consulting Group Pty Ltd, and outlined a range of concerns to the NT Government.

The Government proposed a number of changes to the regime to address these concerns. However, a number of outstanding issues were not resolved before the NCC put out its draft recommendation to not certify the regime in September 2000. These relate primarily to the introduction of retail contestability and pricing of out-of-balance energy.

The NCC has now received a number of submissions on its draft recommendation and will continue discussions with the NT Government.

Contact: Ed Willett,
Executive Director, NCC
(03) 9285 7470 or
<<http://www.ncc.gov.au>>





State developments

Victoria

The Office of the Regulator-General

Essential Services Commission

The Victorian Government intends to establish the Essential Services Commission (ESC) on 1 July 2001 with responsibility for the regulation of electricity, gas, water, rail, ports and the handling of grain. The current role of ORG will be subsumed into the ESC with additional responsibilities. The Government's stated objective is to ensure high quality, reliable, equitable and safe provision of essential utility services in Victoria.

Electricity

Electricity distribution price review

On 21 September ORG released its determination on the 2001–05 electricity distribution price review on 21 September 2000. The determination provided for:

- real average price reductions of between 12.4 and 21.8 per cent and improvements to the reliability of supply by up to 37 per cent over the period 2001–05;
- an efficiency-sharing mechanism creating incentives for distribution businesses to undertake efficiency improvements throughout the regulatory period with financial benefits to be shared with customers;
- financial incentives for the distributors to improve service reliability; and
- a requirement for distributors to make guaranteed payments to customers who experience poor reliability compared to specified targets.

Re-determination

In October four of the five Victorian distributors lodged appeals against ORG's determination with an appeal panel. Following the appeal panel process, ORG released a re-determination, implementing the decisions of the appeal panel. In summary, these amendments provided for real average price reductions (X factors) of between 9.1 and 18.4 per cent on 1 January 2001, compared to the reductions required in ORG's original determination of between 12.4 and 21.8 per cent. The re-determination did not affect ORG's decision that customers should experience improvements in the level of reliability in future.

During December 2000 TXU Australia started a judicial review process of the ORG determination in the Supreme Court of Victoria. This review process is continuing.

Distribution

The distribution price determination included:

- a new methodology to calculate customer contributions for connection and augmentation works;
- that distributors would be required to make fair and reasonable offers to underground existing network assets; and
- that fair and reasonable offers for connection of embedded generators would include the benefit of avoiding distribution costs between embedded generators, distributors and customers.

ORG is currently amending guidelines about customer-initiated connection to and augmentation of the distribution network, to codify these decisions on customer

contributions, undergrounding and embedded generators.

The distribution code was reissued on 1 January 2001 to incorporate the outcomes of the price determination and regulatory developments on full retail contestability.

Additions include new obligations for distributors to compensate domestic customers for voltage surge damage, include the cost of network losses in project evaluations, install quality of supply monitoring equipment and publish annual planning reports for transmission connections and for their distribution systems.

Transmission

Following an agreement between the ACCC and the Victorian Government, regulation of transmission revenues was transferred from ORG to the ACCC. ORG is currently working with transmission licensees, the Victorian Government and other interested parties to ensure that the unique Victorian transmission planning arrangements (which clearly separate the planning and ownership of transmission projects) is fully reflected in the NEC and other new transmission regulatory arrangements.

Full retail competition (FRC)

The timetable for full deregulation of the retail electricity market was not achieved largely because the appropriate systems were not available. Customers with consumption between 40–160 MWh per annum have choice of retailer from 1 January 2001 and it is anticipated that FRC will commence in January 2002 for all customers.

The introduction of FRC requires low-cost switching mechanisms to be developed through the jurisdictional metrology procedure provided for in





the National Electricity Code (NEC). The Department of Natural Resources and Energy (DNRE) expects to consult on Victoria's draft metrology procedure and profiling options in February.

ORG contributed to the development of the procedure to ensure it meets the broad competitive requirements and will ultimately assume the metrology coordinator role.

For 2001 local retailers have published prices and terms and conditions for all customers based on terms and conditions determined by ORG through its retail code. The Victorian Government retains reserve powers to regulate price.

In further preparing for FRC ORG has:

- formed a working group with retailers to develop and implement the operational details of the retail of last resort (RoLR) scheme; initially local retailers will be required to act as RoLR, but ORG intends to introduce a scheme by 2003 where all retailers may 'bid' to be RoLR;
- consulted on and will publish its position paper on *Ring-fencing in the electricity and gas industries* in February;
- developed positions on national metering identifier (NMI) pre-allocation, accessible standing data for new retailers, meter provision and cost recovery, and detailed rules for customer transfer; and
- continued to coordinate the education campaign for the mass market and monitor the development and implementation of the market code of conduct.

Licensing

ORG has recently varied all retail licences, reflecting the expiry of the former retail franchises, and updating licences ahead of the introduction of full retail competition. Consultation is currently taking place

with stakeholders on proposed changes to distribution licences to fully implement decisions contained within the price determination, new demand reduction arrangements, and the requirements of full retail competition. Generation and transmission licences will also be reviewed and updated where required.

ORG is also currently considering Basslink's application for a transmission licence. If issued, this may require a new class of transmission 'interconnector' licence.

Gas

Gas distribution price review

ORG is required to complete a gas distribution price review by the end of 2002. To facilitate this review, ORG anticipates releasing an initial consultation paper shortly.

Full retail competition

Gas customers consuming more than 10TJ have increasingly been able to exercise choice since October 1999. The timetable for full retail competition is yet to be determined by the Government. Customer churn rates provided by the system operator, VENCORP, suggest the following churn rates to date:

- >500 TJ 48%;
- 100–499 TJ 22%;
- 10–99 TJ 6%.

A Victorian Gas Contestability Steering Committee (VGCSC), comprising representatives from ORG, the Department of Natural Resources and Environment, VENCORP and industry and customer groups, has been established. They are to oversee the progressive introduction of contestability in the gas industry.

Gas performance report

ORG released its first gas industry performance report in October 2000. The report, which reported on calendar year 1999, was consistent with the approach adopted for the electricity and water industries and focused on the key issues of reliability, affordability and disconnections for non-payment and customer service.

A comparison between the Victorian gas and electricity industries shows that the use of disconnection for non-payment is more prevalent in the gas industry. Future reports will analyse these comparative trends in more detail.

Licensing

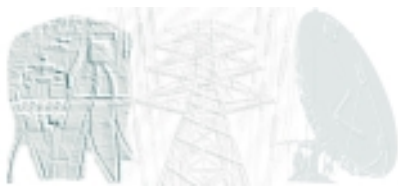
ORG will shortly conduct public consultation on proposed amendments to its gas retail licences to:

- incorporate changes required by the *Gas Industry Acts (Amendment) Act 2000*;
- harmonise, where possible, with electricity licences (which were varied on 28 December 2000 to establish the framework for full retail competition); and
- implement the *Essential Services (Dispute Resolution) Act 2000* which provides that licensed gas distributors and retailers must enter into a customer dispute resolution scheme approved by ORG.

Water

In late 2000 the Victorian Government passed the *Essential Services (Dispute Resolution) Act 2000* requiring that the Victorian water utilities (including Melbourne Water, non-metropolitan urban water and sewerage authorities and irrigation authorities) be required to join an ombudsman scheme. The Victoria Energy Industry Ombudsman will be reconstituted as the Energy and Water Ombudsman, and ORG is currently consulting on





amendments to the water and sewerage retail licences to implement the legislative requirements.

Grain

ORG regulates grain-handling services within the ports of Geelong and Portland of facilities sold by the Grain Elevators Board in 1995.

In May 2000 ORG completed a review of regulation for the period 1995–2000 and determined that the facilities should be subject to regulation for a further three years. It was decided that GrainCorp, the owner of the facilities, should comply with a set of yearly pricing principles which include a provision to increase the transparency of GrainCorp's charges and functions to grain growers and traders.

Subsequently, following several months of discussions and public consultation, ORG concluded that GrainCorp did not satisfy the pricing principles with its proposed charges. It therefore required GrainCorp to comply with a set of default handling charges effective from 14 November 2000, which significantly reduced the proposed charges. In early 2001 ORG will conduct further public consultation to set new charges before the next harvest.

Western Australia

Office of Water Regulation

The Western Australian Water Industry Awards 2000: promoting research, innovation and excellence

The Office of Water Regulation initiated the Western Australian Water Industry Awards to promote research, innovation and excellence.

The winners for 2000

- ***BP Refinery Kwinana Pty Ltd***

Minister for Water Resources Award for excellence and Award for water treatment/reuse

Embracing the concepts of cleaner production and sustainable development, BP Refinery Kwinana implemented a water reuse and minimisation program in 1997, achieving cost savings in excess of \$1.4 million.

The new program decreased flows to the wastewater treatment plant, reducing contaminant loads. The reduction in the use of potable water is also critical, as the abstraction of groundwater causes degradation of Perth's coastal plain wetlands and bushland.

- ***Solar Energy Systems Ltd***

The Countryman Award for farm water supply

The design of a non-corrosive solar powered water pumping system specifically meets the needs of farming families and businesses. The system acts on the same basic principle as a windmill and is tailor-made for farmers and pastoralists throughout Australia, both in terms of operation and maintenance in rural and remote locations.

- ***South West Irrigation Management Cooperative (SWIMCO)***

Curtin Radio Award for excellence in customer service

Improved service standards have been achieved through the introduction of new technologies for the ordering and delivery of irrigation water to irrigators in the south-west of the State.

- ***Peet & Company (development of the Brookwood Estate, Brookdale)***

Water and Rivers Commission Award for irrigation/drainage project

The Brookwood estate development overcame a range

of serious environmental obstacles, including a high water table, an inadequate presence of potable water, and other difficulties relating to effluent disposal and stormwater drainage.

- ***Boulevard Dry Cleaners, City Beach***

Award for plumbing product or system

The design and installation of a new cooling system eliminates dangers such as the release of the deadly legionellosis bacteria through cooling tower drift. Although unique in its application to the dry cleaning industry, the system has the capacity to be duplicated or 'banked up' to satisfy a large capacity plant.

- ***Amcor Packaging Australasia***

Environmental Solutions International Ltd Award for water conservation

The implementation of a water efficiency program reduced total water usage and achieved cost savings in the areas of post-treatment and disposal, with the added benefits of having less environmental impacts, lower energy and capital costs.

Water Week 2000

Unique to Western Australia, the annual awards provided a focal point during National Water Week. The Office of Water Regulation coordinates the Public Education Committee, comprised of representatives of the Water and Rivers Commission, the Water Corporation, Aqwest Bunbury Water Board and the Busselton Water Board. This committee meets to coordinate a series of events for Water Week, which this year promoted the theme, Water for Life.

Monitoring industry performance

As reported in the last issue of *Network*, the State's main licensees are participating in an ongoing benchmarking process and have



provided performance data to facilitate this development. The aim is to better inform both customers and providers about the performance of water services.

The first water services benchmarking report will address water supply services. A second report will cover wastewater services.

Customer service matters

Western Australians have again signalled a high level of satisfaction with water and sewerage services.

The results of the second customer satisfaction survey conducted by the Office of Water Regulation produced excellent overall satisfaction ratings for water and sewerage services to residential and commercial customers throughout Perth, Bunbury and Busselton.

The Plumbers Licensing Board

The newly established Plumbers Licensing Board will focus on the protection of consumer interests and involvement of industry stakeholders in shaping the future development of the plumbing industry in Western Australia.

Commencing operations on 19 June 2000, the board has responsibility for the licensing of plumbers operating in Western Australia.

The board is currently promoting the benefits of employing appropriately licensed plumbers and establishing an accurate database of industry members who require licensing under the new system.

The board is also keen to address a number of other issues impacting on the industry, ranging from the need to review current education and training requirements of plumbers, to the establishment of an ongoing audit process to ensure industry standards are met.

Pipeline	Date access arrangement lodged	Status
AlintaGas mid-west and south-west gas distribution system	30 June 1999	Final approval granted 18 July 2000
Dampier to Bunbury natural gas pipeline	15 December 1999	Draft decision expected in the first quarter of 2001
Goldfields gas pipeline	15 December 1999	Draft decision expected in the first quarter of 2001
Kambalda lateral	Deferred	Extension granted to 1 December 2002

Gas

The regulator

The Western Australian Independent Gas Pipelines Access Regulator is responsible for the administration of the National Gas Pipelines Access Code for Natural Gas Pipeline Systems for both gas transmission and distribution pipelines in the State.

The status of access arrangements for gas pipelines under consideration by the Western Australian Independent Gas Pipelines Access Regulator is summarised in the table above.

Parmelia pipeline

The final approval for the Parmelia pipeline provided for an initial capital base of \$62.5 million and required that a capital redundancy policy be included in the access arrangement to address uncertainty in gas transmission forecasts. The rate of return on equity was determined at 14.2 per cent (nominal, post-tax) corresponding to a weighted average cost of capital (WACC) of 8.1 per cent (real, pre-tax).

Tubridgi pipeline system

The access arrangement for the Tubridgi pipeline system was not approved in the draft decision.

Amendments were required including that the initial capital base be determined at \$16.9 million. A capital redundancy policy to address uncertainty in gas transmission forecasts was also required. The rate of return on equity was determined at 14.2 per cent (nominal, post-tax) corresponding to a WACC of 8.2 per cent (real, pre-tax).

Ring fencing

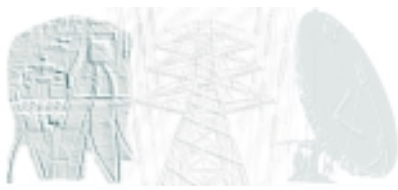
Two draft decisions have been issued on ring fencing, one for the Parmelia pipeline and another for the Tubridgi pipeline system. The draft decisions were to not grant waivers of ring fencing obligations.

Following withdrawal of the application for waiver, a final decision not granting the waiver was issued for the Parmelia pipeline on 21 September 2000.

The final decision for the Tubridgi pipeline, which was issued on 21 November 2000, was to grant a conditional waiver of the obligations for which the application was made.

Appeals to Gas Review Board

On 14 July 2000 AlintaGas lodged two appeals against the Coordinator of Energy relating to licensing conditions.



The appeals were heard on 9 November 2000, and the Gas Review Board handed down its decision on 11 December 2000.

Details on all developments are available on the Office of Gas Access Regulation website at <<http://www.offgar.wa.gov.au>>.

Contact: Peter Kolf OffGAR
(08) 9213 1900

South Australia

South Australian Independent Industry Regulator (SAIIR)

Electricity

Licensing

The SAIIR has been involved in the issue or transfer of relevant licences associated with the State Government's electricity privatisation program. Previous issues of *Network* have reported on privatisations up to the end of June 2000. On 8 September 2000 the generation licence held by Flinders Power Pty Ltd (authorising operation of the Northern and Playford Power stations at Pt Augusta) was transferred to a group of four subsidiaries of NRG Energy, Inc. On 31 October 2000 a new transmission licence was issued to Bluemint Pty Ltd (subsequently renamed ElectraNet Pty Ltd) to operate the main transmission network in SA. A licence to operate this network was previously held by Transmission Lessor Corporation, trading as ElectraNet SA. Beneficial ownership in the new transmission entity is currently held by the ABB Group, Macquarie Bank and Powerlink Queensland.

A rationalisation of contestable retailers is occurring. At 31 December there were nine retailers licensed to sell only to contestable customers in SA.

The Pelican Point power station (National Power) has begun

operations, and is scheduled to build to almost 500MW output by March 2001.

A transmission licence application has been received from Transgrid for the proposed SA/NSW interconnect (SNI) project. This matter will not be finalised by the SAIIR before the NEMMCO consideration of the project and the State development approval process. A discussion paper, on the role and complexities of interconnects in the NEM, was released recently by the SAIIR to facilitate discussion on the SNI project.

Full details of all licence holders are available from the SAIIR website.

Grace period customer

In South Australia, customers with annual electricity consumption greater than 160MWh are contestable. Of these customers (about 3200 in all), only about 10 per cent have entered into contracts with retailers. Published (transitional) tariffs for these customers will cease from 30 June 2001. An information bulletin has been prepared for these customers.

Inquiries and reviews

Public street lighting

A draft report of the inquiry into the current level of charges for public street lighting in South Australia was issued on 1 September 2000. Major findings include:

- the need for changes to the system in the distribution code for reporting faulty streetlights;
- current charges to councils for public street lighting services are at the upper end of an acceptable range; and
- at present, it would not be worthwhile to introduce greater contestability for these services.

The inquiry was concluded on 30 November 2000, with the final report released on 28 December.

Security deposits and other inquiries

A draft report was released in October setting out proposed determinations by the Industry Regulator on proposals by AGL SA (the franchise retailer) to revise current arrangements relating to the:

- level of security deposits;
- interest payable on security deposits; and
- interest chargeable on late payments.

A final report was released on 14 December 2000.

Other continuing inquiries include a review of licences issued before the commencement of new regulatory arrangements in October 1999.

Licensee audits

The SAIIR has requested audits of the following areas:

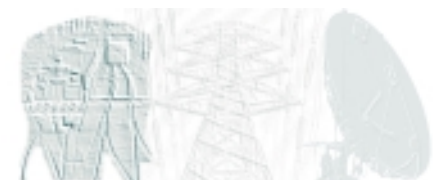
ETSU Utilities

Compliance with requirements of the distribution code to make compensation payments to consumers for failure to repair streetlights and to attend meetings on time.

AGL SA

- compliance with requirements of the retail code regarding the imposition, retention and return of security deposits.
- compliance with requirements of the retail code to make compensation payments to consumers for failure to attend meetings on time.

In addition, the SAIIR has decided to review (in conjunction with AGL SA and the Electricity Industry Ombudsman) the extent of increased consumption of electricity reported by some consumers in the most recent billing cycle. The review will seek to confirm the reliability of the billing system and to identify causes for the increase in consumption.





Inset networks

The Electricity (General) Regulations 1997 dealing with inset networks have been amended. The revised regulations came into force on 12 October 2000. These regulations set out new requirements for owners of shopping centres, caravan parks, office buildings and industrial parks regarding the supply and pricing of electricity to tenants or residents.

An information bulletin has been prepared to help tenants and owners understand the new arrangements under the regulations.

SAIR guidelines

A number of guidelines have been finalised by the SAIR concerning various aspects of its electricity regulatory functions. These are available on the SAIR website. Information requirement guidelines are now in place for AGL SA (franchise retailer) and ElectraNet (transmission entity). A similar guideline for ETSU Utilities (distribution entity) is nearing completion. Other finalised guidelines concern compliance systems and reporting confidentiality, consultation processes, and consumer information and protection — green power.

Regional visits

The SAIR and the Electricity Industry Ombudsman have begun a series of visits to regional areas to highlight changes to the structure and regulation of the electricity industry.

The first visit was to the Barossa region with other visits scheduled for the Adelaide Hills, Whyalla, Pt Pirie, Pt Augusta, the Riverland, Kangaroo Island and the Fleurieu Peninsula. Assistance with the coordination of each visit has been sought from the Regional Development Boards in each of these areas.

Other industries

The SAIR is presently undertaking a scoping review of its role as regulator for the Australasia rail access regime.

Legislation to privatise the Ports Corporation and to provide the SAIR with various regulatory powers for the ports sector, including access to ports channels, was enacted by State Parliament in December 2000.

Website: <<http://www.sair.gov.au>>

ACT

Independent Competition and Regulatory Commission (ICRC)

ACTION fare inquiry 2001–04

The current fare determination for ACTION bus services expires on 30 June 2001. The Government has issued a reference to the ICRC for an inquiry to determine prices for the period 1 July 2001 to 30 June 2004. The reference directs the ICRC to consider a number of matters before determining fares. The ICRC should determine a sustainable level of fares over the three years of the price path, consider current and projected patronage trends, including an analysis of the impact on and adequacy of fare box recovery levels arising from the previous price increase in July 2000. The ICRC is also required to examine and provide advice on the current approach to community service obligations.

The ICRC has engaged Booz Allen & Hamilton to undertake the analysis on the ACCC's behalf. The inquiry has started and the initial interviews with stakeholders were on 10 November 2000.

The ICRC has prepared an issues paper to assist parties in making preliminary submissions to the development of the draft report, which is available on the ICRC website. The draft report was released in February 2001. The final

report and determination is required by 18 May 2001.

Taxi reform and price inquiry

The Government agreed to a reference for the ICRC to determine taxi fares for the period 1 July 2001 to 30 June 2003.

The reference requires the ICRC to address the methodology to be used for determining prices for taxi services and to set maximum fares. In meeting the terms of reference the ICRC may either prepare separate reports for the methodological inquiry and the fare determination or consider both jointly.

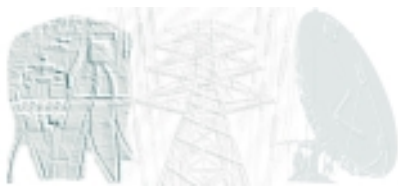
The reference leaves the date for release of the draft report open but sets the date for the final report at 30 May 2001. The conditions in the *Independent Competition and Regulatory Commission Act 1997* stipulate several periods of mandatory delay while public consultation occurs. The delays would imply that the draft report should be available by the beginning of May at the latest.

Utilities Bill update

The Utilities Bill was passed in December effective from 1 January with a transitional period to allow for the implementation of provisions of the Act. The Act is expected to be fully implemented by end of June 2001. The ICRC is considering the implementation issues that it will face, together with the other agencies responsible for delivering the services in the regime.

From the ICRC perspective the critical dates for the issue of the interim and final licences are still unconfirmed. It is assumed that the interim licences will be required by 1 January 2001 and the final licences by the end of May. The number of issues facing the ICRC in December and early 2001 is daunting, particularly as the ICRC will have to find staff to undertake the licence issue and administration task.





A full report on the structure and the operation of the utilities framework will be provided to forum members for the next meeting.

ACTEW/AGL gas access report

The ACTEW/AGL gas access final report has been released and approved. The ICRC is aware that the utilities legislation and the operation of the ACTEW/AGL joint venture will be dependent upon the matters contained in the report.

Ring fencing code

Consistent with the work of other jurisdictions on ring fencing codes, the ICRC has begun the task of drafting a ring fencing code for application to the Territory.

The code development process will involve stakeholder consultation and may involve some level of community exposure. The discussion draft will be available early in the new year. Copies may be obtained on the ICRC website at <<http://www.icrc.act.au>> or in hard copy by calling the ICRC.

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New South Wales

Independent Pricing and Regulatory Tribunal (IPART)

Energy licensing

In November 2000 the NSW Government transferred to IPART responsibility for administering the licensing of NSW electricity distribution and retail businesses, and reporting on the extent of their compliance with licence conditions.

Formerly, the Ministry of Energy and Utilities administered the licensing of electricity businesses, and the Licence Compliance Advisory Board (LCAB) prepared annual licence compliance reports. The LCAB ceased to exist in February 2000 and therefore did not

complete its report on licence compliance during 1999–2000.

The first function of IPART in its new role has been to complete the LCAB's task of reporting on compliance with the licensing regime, as administered by the Ministry during 1999–2000. IPART's report has been submitted to the Minister for Energy and will be made public when the Minister tables the report in Parliament in early February 2001.

IPART is aware of various problems associated with the licensing regime that were identified by the LCAB in its previous reports. IPART will work with the Minister for Energy to find ways of improving the licensing regime in the context of full retail contestability. This may involve the Minister asking IPART to conduct a review of the regime.

However, until a review and any changes to the regime are complete, IPART considers that licensees should comply with the current regime. Early in 2001, IPART will write to licensees to confirm the current reporting requirements for 2000–01.

Cross industry

Transfer pricing

Linking into the ring fencing work under way in the electricity industry, a cross-industry project was initiated to look at transfer pricing for inter-entity and intra-entity (regulated and non-regulated activities) transactions. A range of options for transfer pricing methodologies will be assessed, including those prescribed by overseas regulators of monopoly businesses and used in inter-jurisdictional tax transactions. A discussion paper will be produced by IPART in the first half of 2001.

Electricity

Retail review

On 27 December 2000 IPART released *Regulated retail prices for electricity 2004*. This determination

establishes regulated electricity retail prices through and beyond the introduction of full retail competition in NSW for customers consuming less than 160MWh per annum. Customers will remain on regulated tariffs while they are not eligible to enter the market. Once they are eligible to choose their retailer, customers can either enter the competitive market or remain on a regulated tariff. If a customer enters the competitive market, they may return to a regulated tariff if they choose.

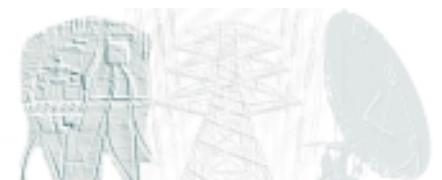
In its determination IPART established appropriate target tariffs for regulated retail tariffs, which reflect the cost of supply. Because these levels are different from the 500 tariffs in existence in New South Wales, IPART established transition paths that move regulated retail tariffs towards the target tariffs. As a result, the highest increase that a residential customer will face is the increase in the CPI or \$25 per annum, assuming the same consumption as the previous year. The highest increase that small businesses will see is CPI or \$50 per annum, assuming the same consumption as the previous years. Some customers will see no price increases for some years. The determination will also standardise the retail component of the tariffs.

IPART's determination is only part of the NSW Government's customer protection framework, which is established in the *Electricity Supply (Amendment) Act 2000*.

Ring fencing

IPART released a discussion paper and draft ring fencing guidelines in September 2000. The draft ring fencing guidelines involve:

- legally separating the distribution and retail sections of their business;
- physically separating the offices and information systems of their



monopoly distribution and competitive retail operations;

- ensuring that directors and marketing staff are not shared between businesses; and
- establishing a rigorous compliance program.

IPART received numerous submissions and held a public forum on 1 December 2000. IPART expects to release a draft report early in 2001 and a final decision by June.

In addition to the ring fencing guidelines, IPART will refine its regulatory accounting framework. This work will link in with a transfer pricing project that is covering all of the industries that IPART regulates.

Pricing principles and methodologies

In 1999 IPART established its pricing principles working group with members drawn from the various stakeholders including the ACCC. (Minutes and papers are available from IPART's website.) The group is developing a set of pricing principles that will operate under part E of chapter 6 of the National Electricity Code but in lieu of the current detailed provisions of part E. IPART released its draft pricing principles and methodologies in December 2000 and will issue the final document in the first half of 2001.

Gas

AGLGN's proposed associate contract

In January 2001 IPART wrote to retailers as part of its consultation regarding a new contracts proposal between AGLGN and AGL Energy Sales and Marketing Limited (AGL ES&M). AGLGN was requested to provide additional information for release to interested parties. IPART will consider submissions and requirements of the code in assessing AGLGN's proposal. A decision will be made by mid-February 2001.

Tariff review — AGL

IPART is considering its decision on the form of regulation in the lead up to effective competition. IPART will release its final decision during the first quarter of 2001.

Water

Urban water

In December 2000 the NSW Minister for Energy requested that IPART conduct a review of system performance standards and customer contract for Sydney Water Corporation. IPART is required to report to the Minister by 11 April 2001 on the system performance standards and by 25 October 2001 on the customer contract. On 19 December 2000 IPART released an issues paper on the system performance standards.

As part of its new licensing role IPART submitted the Annual Operational Audit Reports in December 2000 to the relevant ministers for Hunter Water Corporation and Sydney Catchment Authority. Both agencies achieved high compliance in most areas of the respective operating licences for the year to June 2000.

Bulk water

In September 2000 IPART released its determination on bulk water services to apply throughout NSW from 1 July 2000. This determination will apply until such time as IPART makes a subsequent determination. Before making further determinations, IPART will consider the Department of Land and Water Conservation's progress in satisfying information requirements for a medium term price path.

Tasmania

Tasmanian Electricity Regulator (OTTER)

The regulatory structure for Tasmania's electricity supply industry is largely modelled on the NEM institutional arrangements. The regulator has code administration and enforcement responsibilities as well as the responsibilities of a jurisdictional regulator for tariff customers, distribution and pricing.

The Tasmanian Electricity Code has institutional arrangements to support the regulator through a code change panel, a reliability and network planning panel and the customer consultative committee.

Pricing

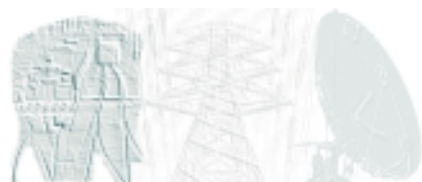
The transmission network service provider, Transend Networks, has published its pricing policy in accordance with the December 1999 pricing determination. The pricing policy is applicable from 1 January 2001 and is available from Transend's website.

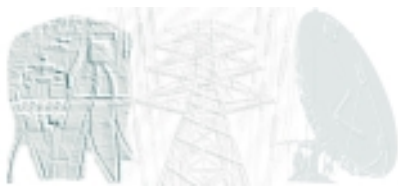
The distribution network service provider, Aurora Energy, is continuing to work on the development of distribution tariffs in consultation with the Regulator. The objective of this project is to ensure that Aurora is well placed before the introduction of retail competition to assess the viability of its products.

The Regulator received the first set of regulatory accounts from the network service providers in December 2000.

Reliability and network planning panel (RNPP)

The RNPP has reviewed the first application of Tasmania's regulatory test (based on the ACCC's market benefits test) to a network project. The Regulator has endorsed the assessment undertaken by the distribution and transmission network service providers (NSPs), which demonstrates that the NSPs'





preferred development option is the one that produces the greatest net market benefit over a range of scenarios.

A determination for capacity reserve standards for the Tasmanian power system is pending.

Code change panel (CCP)

Alignment of the Tasmanian Electricity Code and the National Electricity Code

The CCP received a code change proposal from the Regulator that reviewed changes made to chapters 4 and 5 of the National Electricity Code (NEC). The Regulator argued that there was an underlying assumption in the Tasmanian Electricity Code (TEC), as well as an industry objective, that the TEC should maintain an alignment and consistency with the NEC, subject to specific Tasmanian issues.

The Regulator took the view that changes to chapter 4 of the NEC (power system security) and chapter 5 (network connection and access) are the most immediately relevant matters to be addressed. The Regulator also took the view that those provisions on market network service providers (MNSP) need not be included in the TEC at this time. While Basslink is progressing as an MNSP, at the time of commissioning and operation it is intended that NEC provisions will apply, thus it is being developed by the proponents having regard to the NEC rather than the TEC.

Vegetation clearance code

The Regulator is developing a draft code chapter addressing vegetation clearance and practice for network service providers. The Regulator will bring this forward as a code change proposal and the CCP will conduct consultation and make a recommendation.

Customer consultative committee

The role of the committee is to advise the Minister or the Regulator (or

both) on issues affecting electricity customers.

The committee's membership has recently been expanded and a tripartite approach has been adopted with representatives of Aurora Energy, the Regulator's Office and customer groups attending meetings. The Electricity Ombudsman and the ACCC attend as observers.

The committee, together with staff from the Regulator's Office, Treasury and Aurora Energy recently met as a working group to progress proposed amendments to the Electricity Supply Industry (Tariff Customers) Regulations 1998.

Industry structure and ongoing reform

System controller

The role of system controller has been transferred by regulation from the HEC to Transend Networks, the TNSP, effective 1 July 2000. This better aligns it with NEM arrangements and provides a framework for transition to the NEM.

Basslink and the Tasmanian natural gas project

The Government has established a major project team in the Department of Treasury and Finance to progress Tasmania's entry to the NEM. This is based on the Basslink interconnector due for commissioning in late 2002 and the natural gas project being developed by Duke Energy International.

The joint assessment panel representing the Commonwealth, Victoria and Tasmania has issued terms of reference for the approval process.

Basslink has applied for a licence to ORG and has announced its preferred route.

Duke Energy International has progressed planning for the natural gas project and states that it has MOUs with foundation customers

which should allow the project to proceed.

The Bassgas consortium, which had a project based on reserves in the Yolla gas field, has recently announced that the project will not proceed.

Licences

The first generator licence application has been received from Energy Equipment Pty Ltd. This is for a 20 MW generator utilising waste as a fuel source. Consultation has been concluded and a determination on the licence will be made by the Regulator in January 2001.

Other small embedded generation projects based on sewage treatment have been developed by the Hobart City Council.

Government Prices Oversight Commission (GPOC)

Bulk water pricing investigations

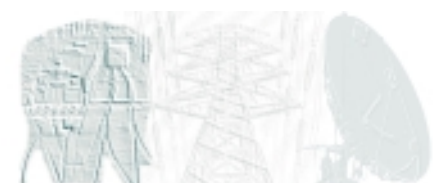
GPOC expects to start its second investigation into the pricing policies of the State's three bulk water suppliers, Hobart Regional Water Authority, Esk Water Authority and North West Water Authority in the first half of 2001.

Competitive neutrality complaints

In late 2000 a complaint was lodged by the Central Highlands Council and the Derwent Valley Council alleging breaches of the competitive neutrality principles by the Valuer-General. Based on legal advice, GPOC concluded that as the conduct of the Valuer-General was not a business undertaking of Government this matter did not fall under the competition principles agreement nor the requirements of the application statement.

Fuel price monitoring

The Treasurer has requested that GPOC monitor the average retail prices of certain petroleum products



in Tasmania. Monthly reports have been published since October 1999.

There was a dramatic change in the Tasmanian market in August 2000 when Liberty commenced operations with one site in Glenorchy in the Hobart area. For the very first time Hobart had lower average petrol prices than Melbourne. There was also a significant effect on LPG and diesel prices.

Liberty and Woolworths have announced plans for further expansion of their outlets. This should see regions other than Hobart enjoy the benefits of competition in the coming months.

Commonwealth Bank of Australia

The CBA acquired the Colonial Trust Bank in Tasmania along with other Colonial assets.

The CBA entered a section 87B agreement with the ACCC for this acquisition. The undertaking provides for access to certain banking infrastructure as well as ongoing monitoring of price, service standards and product availability.

GPOC has accepted the role as monitor for this undertaking. The ICRC has accepted the role of monitor for regional NSW.

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(03) 6233 5665

Queensland

Queensland Competition Authority (QCA)

Electricity

The QCA replaced the Queensland Minister for Mines and Energy as Jurisdiction Regulator under the National Electricity Code (NEC) from 19 December 2000.

While the QCA could establish new prices from any date after it became

Jurisdiction Regulator, the QCA determined that the prices established by the Queensland Minister for Mines and Energy from 1 July 2000 should continue to apply until 30 June 2001.

The QCA released a draft determination on regulation of electricity distribution in December 2000. This draft determination proposed an incentive regulation regime based on a four-year regulatory period with revenue caps incorporating a CPI-X roll forward mechanism.

The QCA is calling for public submissions to obtain the views of interested parties before preparing its final determination. The draft determination may be accessed on the QCA's website at <http://www.qca.org.au>. The closing date for receipt of submissions was 19 February 2002.

Contacts: Gary Henry
(07) 3222 0504
Rob Prydon
(07) 3222 0519

Gas

The *Gas Pipelines Access (Queensland) Act 1998* gives effect to the National Third Party Access Code for Natural Gas Pipeline Systems (the code). The code and the legislation provide that the QCA is the relevant regulator for approval of access arrangements for natural gas distribution systems in Queensland.

Schedule A to the code lists the relevant natural gas distribution systems covered by the code for Queensland, including:

- the Gas Corporation of Queensland System (now owned by Envestra Limited), which incorporates the Gladstone, Ipswich, North Brisbane and Rockhampton networks;
- the Allgas Energy Limited System, which incorporates the Gold

Coast, Oakey, South Brisbane and Toowoomba networks;

- the Dalby System, owned by the Dalby Town Council; and
- the Roma System, owned by the Roma Town Council.

The Dalby system has recently been revoked from coverage under the code's provisions.

In accordance with the requirements of the code, the two major distribution network owners, Allgas Energy Limited and Envestra Limited, have submitted proposed access arrangements and access arrangement information to the QCA for approval. Roma Town Council is currently considering sale of its network to private interests and the QCA has therefore elected not to pursue the issue of lodgment of an access arrangement for this network at the present time.

The QCA released an issues paper along with the submitted access arrangements on 17 November 2000, calling for public submissions to obtain the views of interested parties before preparing its draft decision. Submissions closed on 22 December 2000. Non-confidential submissions are available on the QCA's website at <http://www.qca.org.au>.

The QCA is now preparing its draft decision, which is anticipated to be released by the end of March 2001.

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Water

Activities of the QCA in 2000

- Developed and published draft *Criteria for the identification of monopoly water supply activities*. The criteria will provide a basis on which the Premier and Treasurer (the Ministers) may declare candidate water supply activities to be a monopoly business activity as a precursor to referral to the QCA for investigation. The





criteria are to apply to private sector water supply activities and the South East Queensland Water Corporation Ltd.

- Prepared a statement of regulatory pricing principles for the water sector. The statement provides an outline of the general pricing principles and related methodologies that the QCA considers relevant to its responsibilities in monopoly prices oversight and third party access. It is relevant to urban water providers, many of whom in Queensland are local governments, and to rural water service providers not covered by price paths established by the Queensland Government.
- Assessed against the monopoly criteria the water supply activities of SunWater, the corporatised Queensland Government agency managing water facilities primarily designed to supply the rural water sector.
- Assessed against the monopoly criteria the water supply activities of the Mt Isa Water Board.
- Commenced an investigation into the pricing practices of the Gladstone Area Water Board. An initial report on progress of the investigation, outlining key issues that are anticipated to require attention, was submitted to the Ministers in December. The QCA is intending to provide draft recommendations to potentially affected parties early in the second half of 2001.

Contacts: Rick Stankiewicz
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George Passmore
(07) 3222 0545

Local government

The QCA is currently undertaking its third review of Queensland local governments' implementation of competition policy reforms in order to recommend levels of payments to councils under the Local Government

Financial Incentive Payments Scheme.

In the first two reviews, the QCA recommended, and the Queensland Government accepted, that payments totalling \$57 million of the \$141 million be made available to councils.

In general, larger councils are applying reforms to a wider range of activities more comprehensively than smaller councils.

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Rail

In December 2000 the QCA released its draft decision on the Queensland Rail (QR) draft undertaking regarding the provision of third party access to its rail network. The QCA has decided not to approve the draft undertaking in its current form, with substantive amendment to the draft undertaking being required before approval could be given. To assist in the process of finalising the QCA's final decision, interested parties have been invited to make written submissions. The QCA will convene public forums for interested parties in February to discuss aspects of the draft decision.

The closing date for submissions is 31 March 2001.

Copies of the draft decision, all papers released by the QCA on its consideration of QR's draft undertaking, as well as public submissions received in response to the papers, are available on its website at <<http://www.qca.org.au>>.

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Northern Territory

Utilities Commission

Price regulation

Regulated electricity networks

With respect to third party access to the Power and Water Authority's (PAWA) distribution networks, the Commission made a number of determinations and approvals as from 1 July 2000. Subsequently, after approval of PAWA's network pricing principles' statement, new network tariffs were approved from 1 October 2000.

Darwin-Katherine transmission line

On 10 November 2000 PAWA purchased the Darwin-Katherine transmission line (DKTL) from the NT Power Group. As this will bring the DKTL under the direct regulation of the Commission, this development should benefit upstream and downstream competition.

The Commission is now involved in a consultative process in order to adjust network prices to incorporate the DKTL from 1 July 2001. An issues paper will be issued on 1 February 2001, with a view to the Commission publishing its revenue cap and WACC decision by 1 April and its tariff decision by 1 May 2001.

CSO payments (and cross-subsidies)

The Commission is undertaking a costing of the community service obligations provided by PAWA (especially those resulting from the Government's policies of uniform (franchise) retail tariffs across the Territory and a below-cost (franchise) retail price cap in Darwin). Also at issue is whether costs are being appropriately allocated between PAWA's franchise and contestable businesses.

Out-of-balance (OOB) energy pricing

Alternative regulatory arrangements are being considered aimed at improving the efficiency of regulated



pricing of the 'involuntary' energy sales which arise between generators on account of the self-dispatch and load following requirements of bilateral (physical) contracting in the absence of a wholesale market in the Territory.

In conjunction with the NT Treasury, the Commission is exploring methods to improve the efficiency of OOB pricing by:

- replacing the explicit penalty component in the regulated prices;
- making the supply of OOB energy effectively contestable; and
- improving the ability to collectively manage the system to realise economies of scale by replacing the tolerance limit with a capacity-based distinction.

Franchise customer pricing

The Commission is preparing advice for the Regulatory Minister on a more

appropriate and longer term electricity pricing order relating to retail pricing in the Territory to take effect from 1 July 2001.

Conduct regulation

Ring fencing

The Commission issued a revised draft replacement ring fencing code for comment in December 2000 finalising the code by 31 March 2001 to have effect no later than 1 July 2001.

The paper accompanying the revised draft provides a general explanation for the changes from the initial draft, explains the Commission's approach to the accounting and cost allocation provisions and sets out the Commission's view on the ring fencing of PAWA generation from PAWA retail.

Water and sewerage

The new Water Supply and Sewerage Services Act has taken effect from

1 January 2001 and determines that these industries are regulated industries and serviced by one supplier (PAWA). Compared with its role in the electricity supply industry, the Commission's role in these industries will be constrained because:

- while the Commission will issue the licences, all licence conditions will be subject to Ministerial approval; and
- all pricing regulation is to be undertaken by the Regulatory Minister.

The legislation provides for a transitional period whereby licensing is not required until 12 months after the commencement of the Act.

Incentive Regulation Paper

Incentive Regulation, Benchmarking and Utility Performance was issued in November 2000. The paper outlines various issues relating to efficient regulatory design and the role of utility performance measurement (including through benchmarking) in designing effective regulation.

Copies of the paper are available on the Utility Regulators Forum website at <<http://www.accc.gov.au>> or alternatively contact Katrina Huntington for copies of the paper on (03) 9290 1915 at \$5 per copy.

For further information contact:

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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@acc.gov.au>.

Regulation and Investment Conference

26–27 March 2001, Manly Pacific Parkroyal, Sydney

The conference will bring together commentators with experience from around the world and include academics, regulators and industry representatives.

The focus of the conference will be on regulation and investment.

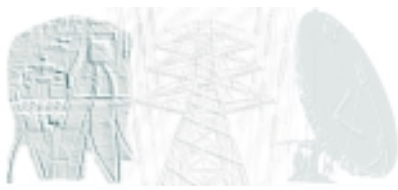
Topics to be discussed include:

- the economic basis for regulation
- regulating for efficient access to an existing essential facility
- regulation, risk and greenfields investments
- the regulatory process

Presented by the ACCC

For further information and to register expressions of interest contact:

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