The regulatory policy agenda for 2001 and beyond

by Rod Shogren,
ACCC Commissioner

Recent events in California illustrated to policymakers the real risk of not getting policy settings right. The move towards full retail contestability in energy markets, has also caused concern for governments wanting a smooth transition to competitive markets for their constituents. Without full retail contestability there cannot be genuine national markets in gas and electricity.

The Productivity Commission recently released a position paper as part of its review of the Australian third party access regime for essential facilities — Part IIIA of the Trade Practices Act. Both the Federal Treasurer and the Federal Minister for Science, Energy and Resources have indicated their support for a review of the operation of the National Gas Code. The Electricity Supply Association of Australia (ESAA) has requested an independent review of the National Electricity Market (NEM). The South Australian, Victorian and New South Wales Governments are initiating NEM reviews and ministerial forums to discuss the future development of the NEM. Finally, the National Competition Council has also indicated that there may be some weaknesses in the institutional framework. Clearly a number of questions are being raised by governments and industry as to the future path of reform for Australia’s energy markets.

The ACCC’s objectives for energy markets in the year ahead are:

• more vigorous competition in generation and retailing;
• removal of impediments to prudent interconnects between regions;
• network pricing that encourages efficient network use and signals the need for future investment; and
• regulatory powers for the ACCC to intervene when there are significant problems of market power.

The current state of the market

The recent high electricity prices over the summer does not mean the CoAG reforms have been unsuccessful, as some critics argue. It is an intermediate outcome from a market slowly adapting to price signals reflecting the real value of energy at times of high demand, a signal that would have been masked in a centrally planned system.

On the supply side the market appears to be responding, with a number of proposed generation developments in the south-east regions. On the demand side, however, the market needs to be more responsive to high prices. For example, interval metering will provide customers and retailers with information and price signals to effectively manage demand over the medium to long term.

There need to be incentives for retailers and contestable customers to come forward with interruptable supply contracts when prices are high. Once both sides of the market are responding to price signals the benefits promised by the reforms will be realised.

Improvements can, however, be made to the governance of the market and the National Electricity Code needs to continue evolving. Issues to be resolved are the institutional arrangements and the nature of government intervention.
Institutional arrangements

The ACCC is concerned that the current institutional arrangements in the electricity sector fail to provide strategic direction in implementing changes to the code. This is highlighted by the processes for the current code changes regarding network pricing.

Gas institutional arrangements

In the past the Australian gas industry was characterised by monopolies at each stage of the vertical chain from production to transmission, distribution and retail. The CoAG commitment to ‘free and fair trade in natural gas’ in 1994 led to the 1997 Natural Gas Access Agreement that each State and Territory would commit to the introduction of the gas code. This code establishes a single set of principles to govern access by third parties to all transmission and distribution pipelines. The code was developed in a joint process by the Commonwealth, States and Territories and the industry.

The code is given legal effect by State/Territory legislation. Each State/Territory applies to the National Competition Council (NCC) to have its regime certified to become an effective regime under Part IIIA of the Trade Practices Act.

Under the Gas Pipelines Access Law, the ACCC regulates access to services provided by transmission pipelines in all States and Territories except Western Australia. Access to services provided by distribution networks is regulated by independent State/Territory-based regulators. The NCC recommends to the relevant minister which pipelines should be regulated under the gas code. This method separates decisions on the approval of the regime and the extent of its application from the regulators that operate under it.

Most of the comments on institutional arrangements relate to the electricity arrangements, but the current move to full retail contestability raises significant challenges to both the gas and electricity institutional arrangements. In gas, as in electricity, there is an urgent need for the States and Territories to develop consistent implementation guidelines across jurisdictions. This is essential for the development of a national market, providing retailers and customers on different sides of a border with similar pricing, connection and metering arrangements. Unless, of course, States and Territories actually prefer energy markets to emulate the state railway systems of the nineteenth century.

Electricity institutional arrangements

The NEM and its institutions are increasingly becoming the object of political scrutiny. In particular, the NEM participating jurisdictions have criticised the performance of the market’s three governing bodies, NEMMCO, NECA and the ACCC, suggesting that governments need to be brought back into the policymaking process through a ministerial forum.

The ACCC’s formal involvement with the NEM began in November 1996 when NECA and NEMMCO submitted the National Electricity Code as an application for authorisation under Part VII of the Trade Practices Act. Then, in April 1997, NECA submitted an application to the ACCC under Part IIIA to accept the NEM access code as an industry-wide access undertaking for administering third party access to electricity and distribution networks.

To assess the two applications and any subsequent changes, the legislation sets out two separate tests. For an authorisation application the ACCC must be satisfied that the public benefit outweighs any anti-competitive detriment. In accepting an industry access code as an effective undertaking, the ACCC must consider several issues, including, for example, the legitimate business interests of the owners of the facilities, the interests of potential access seekers, and the public interest.

The ACCC has one further role in relation to the regulation of the NEM — to regulate transmission networks’ allowable revenue.

These three institutions, NECA, NEMMCO and the ACCC have contributed greatly to the development of the NEM thus far. It would be a considerable exercise to appraise each institution’s performance in relation to its functions and objectives set out in the members agreement, the code and the Trade Practices Act. The performance of these institutions will rather be looked at in an area that the ACCC considers as critically important to the development of the NEM: the code change process. This process is giving rise to much of the criticism of the institutional arrangements.

Code changes put forward by NECA to the ACCC can vary in size and importance. The ACCC therefore considers that it can work more closely with NECA to refine the number of code changes for authorisation. This would cut down the length of the code change process for the less significant, clarifying changes, and reduce the regulatory burden for industry.

While the ACCC does not consider widespread changes to the design and operation of the NEM necessary, changes are needed to improve the broad development and policy direction governing the NEM. The ACCC’s assessment of the transmission network pricing code changes revealed that it is necessary to consider some broader code changes in terms of future market developments.

The ACCC has recently released its final determination on the network pricing and market network service provider code changes. These changes are aimed at improving locational and usage signals for the transmission network. In its determination the ACCC found the changes would constitute a public benefit in terms of greater usage and locational signalling subject to a number of conditions of authorisation.

The ACCC believes there is scope for improvement of the network pricing arrangements, perhaps through refinement of NECA’s proposals. It is requiring NECA to further review the transmission use of system (TUOS) usage pricing regime and has set down some suggestions and guidelines for NECA and interested parties to consider.
NECA’s review of integration of energy markets and network services (RIEMNS) is an important related process. The code changes expected at the completion of the RIEMNS review may significantly affect the network pricing arrangements and may include the creation of more regions and the improvement of inter-regional loss signals. Such changes will result in an improvement in the short-term cost signals of transmission network usage in the energy market.

The debate about whether these changes will provide the appropriate usage and locational signalling for transmission use and investment raises the question whether there is still a need for further usage price signals through a separate transmission charge.

**Appropriate role of governments**

The ACCC welcomes a review by the State/Territory Governments of the overall objectives and institutional arrangements of the NEM, and has been calling for a reassertion of policy leadership at government level in the development of the NEM.

The renaissance of government interest in the NEM is welcome, but with qualifications. First, in dealing with immediate problems, governments are likely to make decisions that protect their constituents from negative short-term impacts but which compromise the ability of the market to deliver long-term benefits.

Secondly, it is hard to be confident that policymakers will make decisions in the overall interests of the market, competition, and therefore end-users, given that some jurisdictions still have vested interests in the market as owners of generation and retail businesses. Consequently, State/Territory jurisdictions should set the overall objectives of the NEM, but then leave the market development role to the current institutions.

These concerns about the ability of the policymakers to make decisions for the greater good of the market have been illustrated by two cases of intervention.

The Victorian Government intervened in the electricity market in February last year to soften the impact of what would have been a period of involuntary load shedding. While mandatory restrictions did achieve their purpose, their implementation significantly distorted price signals not only in the Victorian region, but also in the other NEM regions.

This price distortion has raised concerns that market participants in the future may be discouraged from hedging themselves against future sustained periods of high prices, for example through investment in peak generation and demand-side management. Next summer should indicate whether these concerns were justified or not.

The current debate and future code changes with regard to RIEMNS further illustrate the conflict of interest governments may have as market policymakers. A likely outcome of the review might be that NECA applies for code changes that increase the number of regions in the NEM.

This move will be an attempt to further integrate energy market prices with network congestion costs, a move that will greatly increase the investment signals faced by all sectors of the market. However, some State/Territory Governments remain opposed to the idea of increasing the number of regions. With such opposition the changes may not eventuate, preventing locational signals from reaching market participants.

Looking ahead, governments are nervous about the introduction of full retail contestability. It is natural that they should wish to protect consumers from price volatility. But there is a considerable danger that government fine-tuning of competition will result in barriers to entry, less competition and fewer benefits for consumers. This will be particularly exacerbated by a lack of national perspective and a focus on parochial concerns.

As the Californian case demonstrated, if governments’ involvement in development of the NEM actually stifles market development, partial deregulation is likely to be worst of all worlds. The potential ramifications are great. For this reason the role of jurisdictions should be one of reviewing the outcomes of the NEM and determining its broader objectives and structure, rather than involvement in the ongoing development and operation of the market.

**One national body for administration of competition law and economic regulation**

Another issue that has been raised in the context of reviews is whether a National Energy Regulator, separate from the ACCC, should be created. The ACCC believes that there are many benefits from having regulation undertaken by a general competition regulator as opposed to industry-specific regulators.

Based on the Australian experience to date, there is evidence to support the arguments by the OECD. For example, in telecommunications a number of services were deemed declared in July 1997 and additional services were subsequently declared following public inquiries. However, as competition developed in the market, the focus of the ACCC shifted from regulating services to examining the continuing need for regulation.

The ACCC has since initiated two inquiries into the limitation, rather than the extension, of existing regulation. In gas, the ACCC has supported revocation of coverage for several smaller gas pipelines that jurisdictions deemed to be covered in the Natural Gas Access Agreement.

The Papua New Guinea to Queensland gas project is an example of how the ACCC has integrated its industry-specific knowledge with its expertise in competition issues. The PNG producers applied for authorisation of a joint marketing arrangement because they believe that the public benefits from this pricing arrangement outweigh any resultant anti-competitive behaviour.

The approval of access principles for the pipeline is a separate but related aspect of the project. The joint consideration of the competition law issues with the economic regulatory role of assessing the access principles highlights the synergies arising from the combined roles of...
the ACCC, and demonstrates the benefits of having a national competition regulator.

The enforcement of compliance with the GST and the assessment of deceptive or misleading advertising in the energy sectors also require an intimate knowledge of these areas. Again, there are significant benefits in having the combined expertise of the staff in both the gas and electricity units and the compliance unit within one national competition regulator.

Incentives for future investment
Despite the substantial investment in new infrastructure in the energy sectors, there are concerns about whether the relevant codes can adequately address the specific needs of a greenfield pipeline or new electricity transmission assets. There have recently been calls for a regulatory holiday for these new investments.

Addressing greenfield risk in the gas sector is a major challenge facing the ACCC and one to which is given careful consideration. Compared to established infrastructure, greenfield projects typically have an uncertain volume profile and a variety of specific risks. There are several options to deal with these risks.

The ACCC is conscious of the need to balance the interests of customers and investors, the need to provide incentives for long-term efficient investment and the desirability of setting prices which track efficient costs as closely as possible.

It has demonstrated its flexibility in relation to the code in the access arrangement for the central west greenfield pipeline. In addition to a return on equity at the high end of the feasible range, this decision provided for losses to be carried forward for future recovery. The access arrangement review period was extended to 10 years to allow any upside from volumes above those forecast to be retained by the service provider. A number of features in this decision is a definitive signal to industry that the ACCC recognises that the risks associated with greenfields investment can be different to existing infrastructure.

The ACCC is willing to provide as much regulatory certainty as possible to any new or proposed investment. Discussions with Duke about their proposed greenfield pipeline into Tasmania are currently under way. In this situation Duke has a high capital investment with a pipeline extending from Longford into the gas frontier of a State that relies heavily on hydro-electric power. There are many risks involved in this project. Again, the ACCC is happy to discuss the regulatory environment before construction of any new investment.

Regulatory holidays
Regulatory holidays are advocated by several industry participants to overcome greenfields risks. As the term suggests, they would provide the investor with a grace period without the usual regulation to earn an unregulated rate of return without any regulatory risk during that period.

The recent Productivity Commission position paper on the national access regime seeks suggestions on the practicality of these access holidays. The ACCC is yet to form a considered view as to whether this idea has merit or if it only has superficial attraction. Clearly there are many issues that need to be addressed in relation to this proposal.

The ACCC does not want this process to be seen as one of picking winners. It is one thing to grant a regulatory holiday for all entrepreneurial pipelines and quite another for governments to pick and choose which projects are granted this status.

Conclusion
The coming year is going to be a critical time for national energy markets. So far, deregulation has delivered considerable benefits to users, industry and the economy that will only increase as the reform process proceeds. It might be premature to make wholesale changes to the market arrangements, but an independent inquiry into the electricity market will reveal what we have gained so far.

NECA, NEMMCO and the ACCC have contributed strongly to the NEM. Nevertheless, the arrangements can be improved to provide a more streamlined code change process — one that provides more direction in terms of development of the NEM. While governments remain shareholders of electricity business, their ability to make decisions in the best interest of the market, and therefore the long-term interests of consumers, is compromised.

Most importantly, a revitalised government interest in energy markets needs to be channelled into genuinely strategic, national matters and not degenerate into parochial protection of local interests.

To achieve good market governance, a well-working market with responsiveness in both supply and demand, and to avoid ad hoc government interventions resulting in half-baked deregulation, much debate is still needed.


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1 See, for example, The Institute of Public Affairs’ or the Australian Gas Association’s submissions to the Productivity Commission’s Inquiry into the National Access Regime, 2001.
National developments

Telecommunications

Infrastructure report

The ACCC recently commissioned a report, Telecommunication Infrastructures in Australia 2001, by BIS Shrapnel. It is the first comprehensive survey of telecommunications infrastructure deployment since deregulation in 1997.

One of the key messages of the report is that increased competition in the industry has been accompanied by greater investment in telecommunications infrastructure.

Despite the growth of facilities competition, Telstra is still dominant in most market segments demanding a continuing role for the ACCC in ensuring competition is nurtured and sustained.


Access amendments

The ACCC also notes recent initiatives by the Minister for Communications, Information Technology and the Arts to explore ways of improving the speed and certainty of telecommunications arbitrations. Senator Alston has proposed a number of amendments to the current arrangements.

The package is designed to further encourage commercial negotiations in the resolution of access disputes between telecommunications providers, and to speed up the arbitration process should commercial negotiations fail.

The legislative reforms will enable the ACCC to hold multilateral arbitrations and encourage the greater use of alternative dispute resolution mechanisms. The ACCC will also be able to use information gathered in one arbitration for use in another similar arbitration action. It will furthermore be able to publish arbitration results, which is expected to help parties reach a commercially negotiated outcome without resorting to ACCC arbitration. Measures will also be introduced to streamline the review of ACCC decisions by the Australian Competition Tribunal.

Several of these reforms pick up recommendations made by the ACCC in submissions to the current Productivity Commission review of the telecommunications competition regulation.

The ACCC particularly welcomes the Minister’s recognition that the legislative amendments will be an important component of any reforms. The problems are not simply procedural ones and many industry participants have already expressed strong support for the proposals.

Regulation review

The Productivity Commission released the draft report of its review of the telecommunications-specific competition provisions at the end of March.

Under its terms of reference the Productivity Commission is to report on the operation of the provisions and whether repeal or amendment is required.

The ACCC has made several submissions to the review which can be viewed at the Productivity Commission’s website at: <http://www.pc.gov.au/inquiry/telecommunications/subs/sublist.html>.

The Productivity Commission reported on 22 September 2001.

Regulatory accounting framework

The ACCC released the telecommunications industry regulatory accounting framework (RAF) in May 2001 to introduce a vertical and horizontal accounting separation model. It requires that revenue and cost information for wholesale and retail services be reported to the ACCC at six-monthly intervals. Telecommunication carriers were informed of their requirement to report under the framework.

The RAF replaces the previous reporting requirements set out in the Chart of Accounts and Cost Allocation Manual.

ADSL roll-out

In 2000 the ACCC issued two separate record-keeping rules under Part XIB of the Trade Practices Act. The first requires Telstra to report weekly on how it intends to provide its competitors with prompt access to its copper network as well as the uptake of Telstra’s retail asynchronous digital subscriber line technology (ADSL). The second requires Telstra to report extensively on the scope and timeframes under which it delivers services on its copper network to itself and its competitors, particularly regarding the deployment and fault-handling of this new technology that allows new generation services such as video-on-demand and video conferencing.

In March 2000 Telstra gave the ACCC a commitment to launch its unbundled local loop and wholesale ADSL products simultaneously. Telstra also indicated that its retail ADSL product would be released around the same time. While Telstra has technically met this commitment and the ACCC is aware that other providers will be rolling out services in competition with Telstra the ACCC remains concerned that other competitors are being delayed from launching their own retail services.

The ACCC has also expressed concern at some of the conduct of carriers seeking access to local loop and DSL services. Evidence suggests that some companies have been slow in lodging orders with Telstra and others have not completed preparing their own networks for these services. The whole industry needs to improve its performance and the ACCC will continue to closely examine progress.
Pricing principles for declared services

The final ACCC report, Pricing Methodology for the Global System for Mobile Communications/Groups Special Mobile (GSM) Termination Service, was released in July 2001. The report established that there were particular characteristics of the GSM terminating service which required regulation at that time. It was determined that a retail benchmarking approach, where access prices for the GSM terminating service fall at the same rate as retail price movements for each carrier’s overall mobile package, was the preferred regulatory approach.

The competitive forces on the GSM terminating service were limited and integrated mobile carriers had some ability to restrict price competition in the downstream market for fixed-to-mobile calls. However, the retail element of the mobile market was seen as increasingly competitive with falling retail prices and a wide variety of retail products on offer. Pegging access prices to retail price movements ensures that the provision of the GSM terminating service mirrors the increasingly competitive element of the mobile services market.

The ACCC intends to use these pricing principles to finalise the access disputes in relation to the GSM terminating service. Also in July, the ACCC issued a draft report mandating premium rate and national rate number portability.

Telecommunications access disputes (arbitrations)

At the end of the 2000–01 financial year, a total of 25 arbitrations had been finalised, six by ACCC determinations, two by ACCC termination, and 17 were settled by the parties (i.e. withdrawn).

Contact: Michael Cosgrave ACCC
(03) 9290 1914

Electricity

Network pricing and MNSP determination

The ACCC released its determination on the network pricing and MNSP code changes on 21 September 2001.

The ACCC received the initial application for authorisation of the MNSP code changes on 26 July 1999. At this time, NECA also submitted an application to vary the access code to encompass changes to the network connection and network pricing arrangements. The authorisation applications were amended on 18 August 1999 to incorporate the network pricing code changes and to make some other minor amendments. Interested parties had already been asked to make submissions on the network pricing code changes with respect to the access code application. The ACCC notified interested parties of the amendments to the applications through its website and extended the deadline for submissions from 30 August 1999 to 17 September 1999.

The ACCC received 27 submissions on the network pricing and MNSP code changes. NECA also provided the ACCC with the final report from its review in support of the applications.

The ACCC produced a draft determination on 12 December 2000 outlining its analysis and views on the authorisation application. Following a request for a conference by TransGrid, the pre-determination conference was held in Canberra on 15 March 2001.

Interested parties were given an opportunity to lodge further submissions with the ACCC following the pre-determination conference. It received submissions from 31 interested parties addressing issues raised at the conference or in the draft determination. The final determination takes into account the issues raised at the pre-determination conference and in these submissions.

The ACCC argues that many of its concerns about investment and location incentives have not yet been fully addressed and therefore it imposed conditions of authorisation to address these concerns and require further work on the scope for improvement of the network pricing arrangements.

Copies of the determination are available from the ACCC’s website or by contacting Maxine Helmling on (02) 6243 1246.

Regulation of Queensland transmission networks

From 1 January 2002 the ACCC will regulate the Queensland transmission network operated by Powerlink.

On 14 February 2001 the ACCC released Powerlink’s application outlining its proposed revenue cap. It engaged PB Associates to undertake a review which analysed and commented on the assumptions, methodology and findings contained in a 1999 valuation of Powerlink’s asset base and analysed and commented on Powerlink’s proposed capital expenditure (capex), operating expenditure (opex) and service standards.

The ACCC invited interested parties to lodge submissions on issues raised in the application and in response to PB Associates’ reports.

The ACCC released its draft decision in July 2001. It draws on Powerlink’s application, PB Associates’ reports, submissions from interested parties and other information presented to the ACCC during its deliberations.

Based on the ACCC’s building-block approach, the draft decision provides Powerlink with a smoothed revenue allowance of $318.50 million in 2001–02, which increases to $485.31 million in 2006–07. This is based on a post-tax nominal return on equity of 11.70 per cent and an opening asset base of $2 279 million. The increase in revenues is largely attributable to Powerlink’s extensive proposed capex program.
Averaging loss factors in distribution networks

On 20 March 2001 the ACCC received applications for authorisation of changes to the National Electricity Code. These amendments to the code related to a proposal to allow distribution network service providers to assign smaller contestable customers to non-physical transmission connection points using an averaged transmission loss factor. The proposal will replace the existing obligation on distribution network service providers to assign all such customers to physical connection points.

On 6 June 2001 the ACCC released its draft determination outlining its analysis and views on the proposed code changes. A pre-determination conference with interested parties was held on 19 July 2001.

A final determination on the code changes will be issued after the ACCC has had the opportunity to consider the matters raised at that conference and any further written submissions.

Tasmania’s entry to the NEM

On 22 November 2000 the ACCC received applications for authorisation of:

- the Tasmanian non-contestable vesting contracts; and
- the Tasmanian derogation from the National Electricity Code.

Before the release of the draft determination, the Tasmanian Government provided additional material clarifying and proposing changes to their earlier arrangements including further information about the operation of Bell Bay Power Station, the operation of Basslink and further clarification of the derogations.

The draft determination was released by the ACCC on 18 July 2001 and outlines its analysis and views of these applications and the additional material. The ACCC proposes to grant authorisation subject to a number of amendments. A list of the conditions is outlined in ss. 4 and 6 of the draft determinations.

A pre-determination conference was subsequently requested by Loy Yang Power and held in Hobart on 6 September 2001. The closing date for submissions has now passed and the ACCC is undertaking further analysis of issues raised and intends to release a final determination later this year.

Queensland technical derogations

On 24 October 2000 the ACCC received applications for authorisation of amendments to the Queensland derogations.

Before the release of the draft determination the ACCC issued interim authorisation for the amendment. The draft determination was released by the ACCC on 12 September 2001 and outlines its analysis and views of these applications and the additional material. The ACCC proposes to grant authorisation subject to an amendment. The condition is outlined in s. 6 of the draft determination.

After the release of the draft determination no submissions were received and no call for a pre-determination conference. The ACCC intends to release its final determination in October 2001.

Proposed amendments to NEC

On 8 December 2000 the ACCC received applications for authorisation of amendments to the National Electricity Code. The proposed amendments dealt with:

- inter-regional transfers of transmission use of system (TUOS) charges;
- treatment of losses;
- improvements to the projected assessment of system adequacy;
- demand-side participation;
- end-user advocacy; and
- pricing under extreme market conditions.

The ACCC produced a draft determination on 6 June 2001 outlining its analysis and views on the authorisation application and on the submissions received from interested parties. A pre-determination conference, called by Country Energy, was held in Canberra on 19 July 2001. The ACCC granted authorisation to the applications on 19 September 2001, subject to a number of conditions.

Network and distributed resources

On 21 December 2000 the ACCC received applications for authorisation of amendments to the development and planning provisions for new transmission network augmentations. A draft determination was released by the ACCC on 20 August 2001 outlining its analysis and views of both the applications and submissions received.

TransEnergie called a pre-determination conference and the conference was held on 13 September 2001. After the conference a number of submissions have been received from interested parties. A final determination on the applications will be made after the ACCC has reviewed these submissions and the issues raised at the conference.

Copies of the determination are available on the ACCC’s website or from Maxine Helmling (02) 6243 1246.

Gas

Over the last quarter the ACCC assessed several access arrangements, specifically working towards completing a number of final decisions. This include the Moomba to Adelaide pipeline system and the Amadeus Basin to Darwin pipeline. The final decision on the south-west pipeline has been completed. Background preparation has also started for the upcoming 2002 review of the Victorian transmission access arrangements.

Moomba to Adelaide pipeline system: Epic Energy

On 16 August 2000 the ACCC issued its draft decision on Epic Energy South Australia Pty Limited’s (Epic) proposed access arrangement for the Moomba to Adelaide pipeline system.
The ACCC proposed amendments that would:

- reduce the proposed tariff by up to 11 per cent; and
- address the imbalance between the interests of Epic and users of the pipeline in the terms and conditions of service proposed in the access arrangement.

The ACCC held a public consultation forum in Adelaide on 2 November 2000. After that, Epic wanted to amend its proposed access arrangement in light of the ACCC’s draft decision and submissions from interested parties.

Epic lodged its revised access arrangement on 18 May 2001. The ACCC released an issues paper on 25 May 2001 for comments from interested parties on the major revisions in the access arrangement, and is preparing its final decision.

The ACCC is currently in the process of finalising its opinion on how extensions and expansions should be finalised its opinion on how extensions and expansions should be of further demand as the infrastructure is currently particularly important issues for the policy should be adopted. These are extensions and expansions should be of finalising its opinion on how extensions and expansions should be.

The ACCC granted the NT Government and the Power and Water Authority a three-month extension (to 7 September 2001) to lodge a joint submission on the draft decision.

The ACCC will prepare its final decision following receipt of all submissions.

Queensland gas pipelines

This year the ACCC assessed proposed access arrangements for four Queensland pipelines. However, the Queensland Government derogated some elements of the national gas code as it would have applied to these pipelines. Most importantly, the derogation provides for reference tariffs to be set by the Queensland Minister for Mines and Energy. As a result, the majority of the typically contentious aspects of the access arrangements were not open to ACCC consideration for any of the four main Queensland pipelines.

Wallumbilla to Gladstone via Rockhampton pipeline: Duke Energy International

Duke Energy International submitted a proposed access arrangement for the Wallumbilla to Gladstone via Rockhampton pipeline on 17 August 2000. As this pipeline is subject to the Queensland Government derogation, the ACCC did not consider reference tariffs or reference tariff policy in its draft decision.

One contentious aspect of this decision and that for the Ballera to Wallumbilla pipeline, is the issue of review triggers. Both pipeline owners argue that review dates were established in the derogation and that the ACCC cannot require earlier review. The ACCC is concerned that the review date of 2016 for these pipelines does allow for review of the non-tariff elements of the arrangements should there be a major shift in the market. Both draft decisions propose an amendment requiring the companies to submit a list of specific major events that would trigger a review of the non-tariff elements under s. 3.17 of the national gas code.

The ACCC sought advice from counsel, which confirmed that it could require the service providers to nominate specific major events that would trigger a review under s. 3.17. The ACCC has recently released a final decision that requires Duke to submit a list of review triggers.

Ballera to Wallumbilla pipeline: Epic Energy

Epic Energy (Queensland) submitted a proposed access arrangement for this pipeline on 17 August 2000. The ACCC released a draft decision on 13 June 2001 and a final decision is expected in September 2001. As described above, the Queensland Government determined the reference tariffs for this pipeline and set the review date at 2016.

Ballera to Mt Isa pipeline: Carpentaria Gas Pipeline Joint Venture

The ACCC received a proposed access arrangement for this pipeline, owned by the Carpentaria Gas Pipeline Joint Venture on 5 November 2000. It expects to release a draft decision on this pipeline in August 2001. The Queensland Government has also determined the reference tariff for this pipeline, and has set the review date at 2023.

Wallumbilla to Brisbane pipeline: APT

On 6 November 2000 APT submitted its proposed access arrangement for the Wallumbilla to Brisbane pipeline (also known as the Roma to Brisbane pipeline). The ACCC sought legal advice about the extent of the derogation, which apparently only applies to the pipeline up to a certain level of capacity. The ACCC also sought legal advice on whether the code allows it to require a reference tariff for additional capacity. The legal advice stated that no additional reference tariffs can be set for a pipeline that is subject to a derogation under the Gas Pipelines Access (Queensland) Act 1998. Staff met with APT and interested parties to discuss the access arrangement in June and are
preparing a draft decision for release in August 2001.

Reference tariffs for this pipeline have also been determined by the Queensland Government, although the review date has only been set at 2006.

Revocation applications to the National Competition Council

Following applications for revocation of coverage of the Moomba to Sydney, Mildura and Riverlands pipelines, the ACCC has suspended work on the access arrangements for these pipeline systems.

Revisions to the principal transmission system access arrangement/south-west pipeline: GPU GasNet

GPU GasNet submitted proposed revisions to the ACCC on 12 September 2000. GPU GasNet proposed to roll-in its $75.5 million investment in the south-west pipeline to the access arrangement for the Victorian principal transmission system (PTS) and to increase tariffs on average by 12.8 per cent in net present value terms.

The south-west pipeline links the PTS with the western underground gas storage facility, the Otway Basin gas fields and the western transmission system. It was built by the Victorian Government after the September 1998 explosion and fire at the Longford processing plant, as part of a broader project to supplement gas deliveries for the winter of 1999.

GPU GasNet submitted that the pipeline would not pass the code’s economic feasibility test as the anticipated incremental revenue would not exceed the amount of the investment, but it contended that it provides system-wide benefits that justify a higher reference tariff for all users. It argued that substantial system security and competition benefits arise from the creation of a link with the underground storage facility and with existing and prospective gas fields in the Otway Basin, by reducing reliance on Esso/BHP’s Bass Strait gas supplied from Longford.

The ACCC concluded that some system security benefits and competition benefits do arise from the investment but that there was insufficient evidence to justify the proposed increase in the reference tariff. It also concluded that the proposed tariff structure would be inconsistent with the principles of the code. The ACCC also had reservations about the prudence of the investment.

- The ACCC issued a final decision on 29 June 2001 not to approve the proposed revisions. It recommended that GPU GasNet submit a revised proposal as part of the 2002
- scheduled review of its access arrangement when there will be firmer evidence of the likely use of the pipeline and its benefits.

Contact: Kanwaljit Kaur
(02) 6243 1259

Rail

ARTC rail access undertaking

The ACCC has received an access undertaking under Part IIIA of the Trade Practices Act from Australian Rail Track Corporation (ARTC). The undertaking covers terms and conditions of access to rail tracks owned or leased by ARTC.

Under s. 44ZZA(4) of the Trade Practices Act, the ACCC must go through a public consultation process before accepting the undertaking. As part of that process, it has distributed an issues paper to interested parties inviting comments and submissions on the ARTC access undertaking. The ACCC will take these comments into consideration in its assessment of the undertaking and publish a final decision by the end of 2001.

The ACCC hosted an industry forum at its Melbourne office on Thursday, 16 August to discuss key issues arising from its assessment of the ARTC undertaking. The workshop covered four broad areas of interest: the legal and interface issues, access pricing, negotiation and dispute resolution, and service standards.

Any inquiries about the workshop can be directed to Renato Viglianti on (03) 9290 1847.

Airports

Review of aeronautical charges at Sydney airport

On 11 May the ACCC issued its final decision on proposals by Sydney Airports Corporation Limited (SACL) to increase aeronautical charges at Kingsford Smith Airport. SACL proposed increases of around 130 per cent. The proposals related to aircraft landing charges, international terminal charges, apron use charges, helicopter charges and general aviation parking charges.

The ACCC objected to the proposed increase, but not to a lower increase. The prices accepted will increase SACL’s annual revenue from around $93 million to around $183 million, an increase of $90 million or 97 per cent. The higher charges apply to airlines. If passed on to airline passengers, the increases will add around $3 to a domestic return flight and around $14 to an international return flight from Sydney airport.

The decision followed an extensive public consultation process. SACL submitted its proposals for ACCC assessment in October 2000. In October the ACCC released an issues paper seeking submissions, and in February released a draft decision. The process also included public discussion forums conducted in December.

The decision approved a substantial part of the increases sought by SACL. The ACCC considered that the increases were required to give SACL a reasonable return on its investments and to compensate SACL for major new investments undertaken in the lead up to the Olympics.

The draft decision did, however, not approve all of the increases as the ACCC had concerns about several aspects of the proposal. The ACCC considered that the land valuation used was too high and that SACL’s proposals did not take into account the effect of future cost reductions.

The ACCC also expressed concern about the way in which SACL applied the ‘dual till’ approach to pricing, even though it accepted its basic methodology.
Brisbane airport new investment proposal

In June 2001 the ACCC endorsed increases in aeronautical charges to fund a range of new investments at Brisbane airport. This brought the total new investment approved at the airport over the past two years to around $47 million. Landing charges and charges for the use of the international and domestic terminals were affected, adding approximately $2.80 to a return international fare and around 30 cents to a domestic return fare.

Brisbane airport brought forward a range of projects — including a major expansion of the international terminal building, the development of a new taxiway and a reconfiguration of roads around the domestic terminal building — which will increase capacity and improve the efficiency of operations at the airport.

Brisbane airport worked extensively with airlines in developing the proposal, forming an ongoing Project Control Group to agree and oversee new developments. As a result, the proposal reached the ACCC with strong endorsement from all major airport users.

A positive consequence of this approach was that it enabled the ACCC to streamline its usual approval processes. After further consultation with stakeholders, the ACCC went directly to a final decision on the matter rather than issuing a draft.

In releasing its decision, the ACCC indicated that it expects other regulated airports to work as closely with airlines to achieve mutually beneficial outcomes.

PC review of price regulation of airports

On 1 June 2001 the ACCC provided its submission to the Productivity Commission’s inquiry into price regulation of airports. The submission provides a detailed assessment of the ongoing need for regulation of airport services. It also addresses the question of what form regulation should take. The submission draws on the ACCC’s experience in regulating airports and the input of several leading independent experts.

The submission concludes that there is a strong case for the continued regulation of Australia’s large airports because they are regional monopolies. Except for smaller regional services there are no alternatives for travellers flying into cities such as Sydney, Melbourne or Brisbane. The submission argues that deregulation is likely to result in large increases in airport charges. These would be borne by airport users and would result in transfers from the travelling public to the privately owned operators of the airports. High airport charges also have the potential to damage Australia’s tourism industry.

Transport and Prices Oversight

Milk monitoring

On 10 April 2000 the Minister for Financial Services and Regulation, the Hon. Joe Hockey MP, directed the ACCC under s. 27A of the Prices Surveillance Act 1983 to formally monitor prices, costs and profits of businesses dealing with market milk product sales. Subsequently, all Australian State Governments agreed to abolish regulated farmgate price controls for market (drinking) milk from 1 July 2000. The monitoring period started three months before the introduction of the Dairy Industry Adjustment Program on 8 July 2000 and ended six months later. A report, *The impact of farmgate deregulation on the Australian milk industry* was published in April 2001.

The report showed that in convenience and corner stores, prices of 2-litre packs of plain milk decreased in response to lower supermarket prices. However, price reductions for 1-litre packs of plain milk and other milk categories were generally less pronounced.

Investigation of liner shipping agreement under Part X of the TPA

In October 2000 the ACCC reported to the Minister of Transport, the Hon. John Anderson MP, the results of its investigation into a liner shipping agreement registered under Part X of the Trade Practices Act. The ACCC recommended against deregistration of the agreement.

In March 2000 the ACCC investigated whether a complaint against the Australia/South East Asia Trade Facilitation Agreement (TFA) provided grounds for deregistration of the TFA. Complaints were made to the Minister about excessive and rapid rate rises imposed on exporters by the shipping lines belonging to the TFA.

In this investigation the ACCC found that, given the minimal requirements of Part X, it could not conclude that there had been a breach of Part X and therefore there were no grounds for recommending the deregistration of the agreement.

On the evidence available the ACCC was not able to conclude that services were inefficient, uneconomic or of an inadequate standard. The investigation also showed that the minimal negotiation requirements (negotiation requires information exchange but consensus does not have to be achieved) were probably not breached. Here it should be noted that a registered discussion agreement under Part X does allow the majority of shipping lines on a trade to collectively discuss rates and set rates on the basis of a non-binding consensus.

In conducting this investigation the ACCC was constrained by the poor quality of data available, especially the data from liner shipping services.

The ACCC notes that Parliament has recently passed some amendments to Part X which will strengthen its role with regard to agreements like those of the TFA. However, the ACCC has also drawn attention in this report to other aspects of Part X which are major weaknesses of the regime. In particular, Part X provides limited scope for meaningful negotiations that may result in agreed outcomes. According to the ACCC, the negotiation provisions of Part X should be strengthened to improve the countervailing power available to shippers.
Inquiry into reducing fuel price variability

In early March 2001 the Government requested the ACCC to examine the feasibility of placing limitations on petrol and diesel price fluctuations throughout Australia. It held preliminary discussions on this issue with a range of industry participants and other interested parties. Following these consultations a discussion paper was released on 14 June 2001.

The discussion paper noted that retail petrol price volatility is generally confined to the major capital cities and some strategically located rural towns on major highways. Retail diesel prices in metropolitan areas do not display short-term price volatility. The discussion paper identified a number of possible causes for the local price cycles. These were: the characteristics of the demand for petrol, competition for market share, excess refinery capacity, oil company price support for their franchisees, short-term excess product at the refineries, changes in demand and the current regulatory structure.

The discussion paper put forward a number of possible options for limiting price fluctuations. These were: educate consumers about the price cycle, allow prices to be changed only once in 24 hours, limit price increases to only a certain amount each day, retail price regulation, reintroduce wholesale price regulation and terminal gate pricing accompanied by open access and no price discounting. The ACCC invited submissions commenting on the issues raised in the discussion paper and will prepare a final report for the Government.

Parallel importation provisions applying to books and computer software

In December 1998 the Government asked the ACCC to report on the potential consumer benefits of repealing the importation provisions of the Copyright Act 1968, as they apply to books and computer software. The ACCC reported in March 1999 but the report was not publicly released at the time. The focus of the report was to provide up-to-date information about the prices of books and computer software in Australia compared with overseas.

The ACCC updated its March 1999 report in April 2001, which confirmed the earlier findings that Australians continue to pay higher prices for books and computer software than their overseas counterparts. It recommended that the importation provisions of the Copyright Act be repealed. Both reports were released in April 2001. The release of the reports followed the Government’s introduction of a Bill to amend the Copyright Act to allow the parallel importation of legitimately produced books and computer software.

The Copyright Amendment (Parallel Importation) Bill 2001 was referred to a Legal and Constitutional Legislation Committee for inquiry and report by 23 May 2001. The ACCC appeared before the committee on 10 May 2001. The majority of the committee supported the Bill, although reservations were expressed regarding some aspects of the Bill and the supporting evidence.

Review of the Prices Surveillance Act 1983

The Productivity Commission has been asked by the Commonwealth Government to review the Prices Surveillance Act 1983. The review is part of the competition principles agreement which committed Australian Governments to review all legislation that restricts competition.

The ACCC made a submission to the review in June 2000. A supplementary submission was presented in February 2001 in response to the review’s interim report, released in October 2000. In May 2001 the ACCC made a further submission in response to the release of the review’s draft report in March 2001.

The submissions argued that a generic prices oversight regime is still justified. It should contain price notification, price monitoring and public inquiry functions. The ACCC’s experience with the Prices Surveillance Act, however, led it to argue for changes to the existing regime to improve its effectiveness, consistency and transparency. The ACCC has already adopted some of these changes in its own procedures.

National Competition Council (NCC)

This update covers the National Competition Council’s work under Part IIIA of the Trade Practices Act.

Publications

In July 2001 the NCC forwarded its response to the Productivity Commission’s (PC) position paper on the review of the national access regime.

The NCC supported many of the PC’s specific proposals for amendment to Part IIIA. These included:

- introduce an efficiency-based objects clause for Part IIIA;
- include general pricing principles within the Part IIIA framework;
- require that Commonwealth access regimes be assessed for effectiveness against the clause 6 principles; and that the same test of effectiveness be applied irrespective of public or private sector ownership; and
- streamline the access undertakings framework by allowing an access provider to lodge an undertaking for a declared service by making the criteria for accepting an undertaking and those for arbitration of declared services more consistent with the principles for certification; and by allowing full merits review on undertakings determinations.

However, the NCC confirmed the views made in its initial submission that wholesale change to Part IIIA poses serious risks.

The NCC has serious reservations about the PC’s view that the structural framework of Part IIIA is deficient. While measures to strengthen the framework are desirable, overturning it in favour of something new seems an extravagant response to the concerns raised in the position paper.
The NCC is especially concerned by the proposals to rewrite the declaration criteria. These proposals appear to stem from the PC’s concerns that the current criteria have an inappropriate focus on ‘competition’ rather than ‘efficiency’, making the ambit of Part IIIA too wide. According to the NCC, the PC’s concern is not supported by experience to date.

The submission is available on the NCC’s website at <http://www.ncc.gov.au>.

Declaration applications

**Western Power**

On 9 January 2001 the NCC accepted an application for declaration of certain electrical transmission and distribution services provided by Western Power Corporation. Normandy Power Pty Ltd, NP Kalgoorlie Pty Ltd and Normandy Golden Grove Operations Pty Ltd made the application. 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 released a discussion paper, consulted extensively with interested parties and sought submissions on the application. Its final recommendation on the matter will be made to the Western Australian Premier.

On 7 May 2001 Western Power instituted proceedings in the Federal Court in Perth against the NCC and Normandy to prevent the NCC from considering Normandy’s application for declaration of certain Western Power electricity transmission and distribution services. Western Power argues that the application services are not ‘services’ within the meaning of Part IIIA. These proceedings are ongoing.

**Freight Australia**

On 1 May 2001 the NCC received an application from Freight Victoria Limited, a private company trading as Freight Australia, for declaration of the rail line services provided by the rail lines it leases from the Victorian Government, excluding services provided by sidings and some branch lines.

The Victorian rail access regime regulates access to all rail lines leased to Freight Australia, including sidings and branch lines, but only to transport freight. If the services under application are declared, their access terms and conditions could be negotiated under the principles and arbitration processes of the national regime, framed by Part IIIA. The national regime could then cover all declared services and be used as a substitute for the Victorian regime for rail line services that transport freight.

The NCC released an issues paper in June 2001 asking for submissions. It subsequently consulted extensively with interested parties to discuss matters raised in the issues paper. Submissions have now closed and the NCC will consider the matters raised as it works towards its final recommendation over the coming months.

**Certification of State and Territory access regimes**

**National gas access regime**

The National Third Party Access Regime for Natural Gas Pipelines has now been certified as effective in all jurisdictions other than Queensland and Tasmania. The Queensland regime is still under consideration and Tasmania has not yet applied for certification. However, the regime is operational in both these jurisdictions.

**Northern Territory electricity**

On 1 December 1999 the NCC received an application from the NT Government to certify a regime as ‘effective’ for access to NT electricity networks. The NCC subsequently embarked on a public process, publishing an issues paper in December 1999 and calling for submissions.

The NCC issued its draft recommendation in September 2000, noting that a number of issues remained outstanding against the CPA criteria. It would therefore be unable to consider the code effective and recommend certification to the Minister.

Principal areas of concern included limitations on contestability and the out-of-balance energy system.

In March 2001 the NCC was able to advise interested parties that the NT Government had addressed these outstanding matters and that the amendments proposed, if effected, would allow the code to meet the CPA criteria. It also advised that the NCC would be unable to put its final recommendation to the Minister until the proposed changes had been implemented.

The NT Government recently advised that the proposed changes have been implemented and the NCC will now prepare and forward its final recommendation to the Minister.

**Victorian rail access regime**

On 27 July 2001 the NCC received an application from the Victorian Government for certification of the Victorian rail access regime as effective under Part IIIA. Some of the track covered by this regime is also covered by a declaration application lodged by Freight Australia, who operates track under lease from the Victorian Government.

While the coverage of each application differs, the commonality of a significant part of the infrastructure allows the NCC to consider these two processes concurrently.

The regime covers a range of matters including a negotiation framework, pricing principles and dispute resolution processes. It appoints the Office of the Regulator-General (ORG) to administer the regime. The ORG has developed papers and

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<sup>2</sup> Section 109 of the Australian Constitution provides that Commonwealth legislation takes precedence over State legislation if there is an inconsistency between them. The NCC is unable to determine the extent of any inconsistency between the national regime and the state regime.
guidelines to indicate how it will manage this appointment (available from <http://www.reggen.vic.gov.au>). The NCC will assess this application through a public process.

National gas code

Eastern gas pipeline — application for coverage

In November 2000 the Duke Group of companies applied to the Australian Competition Tribunal for a review of the Minister’s decision to cover the eastern gas pipeline (EGP). The hearings for the application for the review were held from 29 January to 8 February 2001.

On 4 May 2001 the Australian Competition Tribunal handed down its decision not to cover the pipeline (*Duke Eastern Gas Pipeline* [2001] ACompT 1). The tribunal’s decision is available at: <http://www.austlii.edu.au/au/cases/cth/ACompT/recent-cases.html>. The essence of the tribunal’s decision was that coverage of the eastern gas pipeline would not promote competition in the south eastern Australian gas sales market as the EGP did not have market power in that gas sales market.

The tribunal found that the eastern gas pipeline did satisfy criterion (b) of the coverage criteria in that it was not economic to develop another pipeline to provide the services provided by the eastern gas pipeline. This finding was based on the tribunal’s view that the service of the eastern gas pipeline was best characterised as a point-to-point service for the transport of gas from Longford to Sydney.

Revocation of the Moomba to Sydney transmission pipeline and the Dalton to Canberra transmission pipeline (New South Wales)

Following the decision of the Australian Competition Tribunal in the eastern gas pipeline case, EAPL reapplied on 18 June 2001 for revocation of two pipelines within the Moomba to Sydney pipeline system: the Moomba to Wilton pipeline and the Dalton to Canberra pipeline. The NCC released an issues paper in late June calling for submissions.

Revocation of the Riverland and Mildura transmission pipelines (South Australia/Victoria)

In May 2001 the NCC received applications from Envestra Limited to revoke coverage of the Riverland gas transmission pipeline, located in South Australia, and the Mildura gas transmission pipeline located in South Australia and Victoria. Envestra is the owner of the pipelines.

The NCC forwarded its recommendations to the decision-makers on 20 August 2001. Both decision-makers accepted the council’s recommendation to revoke coverage of the two pipelines.

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

Submissions closed on 13 August 2001.
State developments

Victoria

The Office of the Regulator-General (ORG)

Essential Services Commission
The Government will introduce the Essential Services Commission Bill to the Parliament in the Spring Session. As previously reported, the ESC will subsume the current duties of ORG and will also be responsible for economic regulation of the water sector from 1 January 2004.

The principal features of the ESC outlined in the Bill are:

- a multi-person commission structure comprising a chairman and additional commissioners;
- broadened objectives for the ESC including consideration of relevant health, safety, environmental and social legislation;
- an enhanced reliability of supply role, including a capacity to conduct investigations into reliability issues;
- a requirement for formal consultation and cooperation with other regulators;
- publications of a charter of regulatory practice and expanded reporting and accountability requirements; and
- enhanced governance through improved appeal procedures.

Electricity Distribution
From 1 January 2001 electricity distributors were required to comply with the price controls and associated arrangements set out in the 2001 Electricity distribution price determination (and as amended in ORG’s re-determination released in December 2000).

ORG has approved distribution and transmission tariffs for each of the five electricity distributors in Victoria.

- The distribution tariffs provide for reductions in the average price of electricity services of between 9.1 and 18.4 per cent.
- Late in 2000 TXU launched proceedings in the Supreme Court of Victoria arguing that ORG has adopted a rate-of-return regulatory approach rather than ‘price-based’ CPI-X form of regulation required by the Victorian Electricity Industry Tariff Order. The appeal was dismissed by Justice Gillard in May 2001. In June 2001, TXU commenced proceedings in the Court of Appeal on the basis that Justice Gillard had made a number of substantive and procedural errors.
- ORG has approved charges for metrology services undertaken by distributors in respect of public lighting loads (NEC type 7), and will soon approve charges for the reading of manually read interval meters (type 5).
- ORG reviewed an application from CitiPower to exempt widespread interruptions in Melbourne’s CBD from the ‘S-factor’ — the financial incentive to meet reliability targets that forms part of the price control.
- Exemptions may be sought for rare and widespread events that were beyond the distributor’s control.
- ORG released a draft decision denying the application. An application from TXU for an exemption from making the new guaranteed payments for interruptions over 12 hours in the 2000/1 summer was approved.

Retail pricing
- ORG reported to Government on three special references to investigate proposed price increases to small customers gazetted by CitiPower, TXU and Origin Energy. It examined movements in underlying input prices (energy prices, network prices and retail margins) and found that the movement in costs between 2000 and 2001 did not justify the proposed increases, but that other factors were relevant to the consideration of price movements in the medium term.

Government, exercising its reserve power to regulate retail prices, denied all but CitiPower’s proposed increase.

ORG released an issues paper on a further special reference, to recommend to Government a methodology for the light-handed oversight of regulated retail prices to small customers. It is due to report to the Minister for Energy and Resources on 30 September.

Full retail competition
Full competition is scheduled to commence in Victoria from January 2002. The regulatory framework for FRC in electricity is nearing completion and key current activities of ORG are summarised below. ORG also continues to contribute to the national FRC activities via various decision-making committees.

Metrology
Victoria’s metrology procedure covering NEC types 5, 6 and 7 (public lighting) has been published by Government. The procedure allows wholesale settlement via a net system load profile of customers who retain their basic meter and unmetered loads. ORG has contributed to the development of the procedure and will assume the role of metrology coordinator at or before the commencement of FRC.

ORG has commenced a study to assess the viability of a roll-out of interval meters funded by a small smeared surcharge on network tariffs. This study was foreshadowed in the recent price determination. Amendments were made to the customer metering code to reflect the imminent introduction of FRC.

Transfer
ORG has finalised a draft customer transfer code, which complements the retail transfer procedures administered by NEMMCO, and will circulate it shortly for comment. The code limits the circumstances in which transfers may be blocked or delayed.
**Ring fencing**

ORG’s ring fencing position paper, *Ring-fencing in the electricity and gas industries*, following consultation on an issues paper, has been published. Responses were generally supportive of the approach taken by ORG (favouring operational rather than legal or ownership separation, and a modified triangle relationship between customers, retailers and distributors). A final decision and draft ring fencing guideline are planned by the end of September 2001.

**Industry readiness**

ORG has engaged PB Power to advise it on retailers’ and distributors’ readiness for FRC. The distribution licences specify key dates on which nominated systems and processes are required to be ready. The readiness assessment provides information to Government’s wider readiness assessment for FRC.

**Access to supply**

ORG has decided to incorporate new provisions in the retail code and distribution code (and on the equivalent instruments covering the gas industry) on limitations of liability, exclusion of statutory implied terms, indemnification and coercion. The provisions will apply to the soon-to-be-established deemed contracts between distributors and customers, and retail contracts for 0-160MWh/year customers.

ORG is finalising guidelines on credit management, the confidentiality of customer information, and consent. These will be published later in 2001.

Amendments were made to the distribution code to reflect the imminent introduction of FRC.

**Market conduct and information**

An industry and customer steering committee has submitted a Market Code of Conduct for ORG’s consideration. ORG will undertake consultation shortly on proposals to bind retailers to comply with the code as a licence condition.

**Customer education**

Approval has been given to ORG’s proposed advertising campaign for FRC, which will start with letterbox drops of an early notice brochure in September. TV and print ads, and a more detailed brochure will follow later this year and probably in 2002, based on judgments about retailers’ marketing intentions, system readiness and the effect of Christmas and the Federal election. Tenders for a call centre have been evaluated and a preferred supplier will be recommended shortly. Targeted campaigns for LOTE, vision impaired and indigenous customers have been designed.

**Customer protection — access to supply**

The retail code, which sets retail service standards in the competitive market, has been in operation since 1 January 2001 and the host retailers’ standing and deemed contracts, which are not to be inconsistent with the code, were published with effect from 1 January 2001. During March to May 2001 ORG will be undertaking a review of the code to incorporate clauses that provide for limitations of liability, exclusion of statutory implied terms, indemnification and coercion.

ORG released its draft decision on ‘Confidentiality and Explicit Informed Consent’ and submissions are due by end-March.

**Use of system agreements**

Proposed default use of system agreements were submitted to ORG for approval. This will be finalised later in 2001.

**Public lighting**

The new regulatory framework for competition and innovation in public lighting services was largely completed.

**Gas**

**Gas distribution price review**

- ORG is required to undertake a review of gas distribution pricing by the end of 2002.
- Consultation paper 1 was released in May 2001. The paper provides the background and context for the forthcoming review of gas distribution access arrangements from 2003.

Issues discussed in the paper include those relating to the services that are to be provided and the related regulatory arrangements; the prices that will be charged for these services; options as to how the incentive-based approach to regulation can be refined and strengthened with specific mechanisms relating to efficiency; and the form and content of access arrangements that apply to Victoria’s gas distributors.

It is worth noting that a ‘price path’ approach has been adopted for the Victorian gas access arrangements which means that CPI-X price caps are to be established for the entire access period, with no adjustments for subsequent events. This approach provides incentives for the distributors to deliver the relevant services more efficiently since they are free to make higher than expected profits without any adjustment to the price caps set at the beginning of the period.

Submissions were sought from stakeholders on the issues identified in the consultation paper. ORG subsequently convened workshops to discuss in more detail the issues raised in the consultation paper and in the stakeholder submissions.

The issues under consideration relate to:
- services policy;
- assessing reference tariffs;
- incentive mechanisms; and
- form and content of access arrangements and related regulatory instruments.


**Full retail competition**

ORG wants to facilitate contestability and protect consumers. Full retail competition is anticipated in the second half of 2002.

**Implementation of safety net**

ORG implemented the consumer safety net legislated by the State Government for consumers consuming less that 10TJ of gas per
year. Customers will still be sold gas under a deemed contract, the terms and conditions of which have been approved by ORG and at prices overseen by the State Government.

The deemed contract will be consistent with the terms and conditions contained in the gas retail code developed by ORG. The gas retail code was finalised in April 2001 after extensive stakeholder consultation.

**Retail rules**

In accordance with the Gas Industry Act 1994, VENCorp, the independent system operator for the principal transmission system (PTS), is required to develop a scheme for the development of retail gas market rules to be applied to customers on the PTS. ORG will then review and either approve or reject the scheme and/or the rules.

ORG is currently reviewing the proposed scheme for retail rule development submitted by VENCorp and the associated retail gas market rules emanating from this scheme. These rules will form the basis of customer transfer processes. ORG will run an open and transparent consultation process before finalising its decision on both the scheme and retail gas market rules in October 2001.

**Customer information**

As has been the case for earlier tranches of contestability, ORG continues to coordinate education campaigns for newly contestable customers. ORG convened a gas contestability seminar on 8 August 2001 for 5-10TJ customers who become contestable from 1 September 2001. The seminar provided these customers with information on gas market reforms, legal and regulatory framework, and a workshop on contract negotiation. ORG received positive feedback suggesting the seminar was informative and valuable.

**Representation on committees and working groups**

ORG is an observer on the Victorian Gas Retail Rules Committee (VGRRC), a committee comprising distribution, retail, consumer and government (observer) representatives, developing the retail rules for the Victorian gas market.

ORG has also been involved in several working groups considering and developing the market structures for full retail contestability (FRC), including trading arrangements, legal and regulatory framework, and transfer protocol.

**Rail**

On 1 February 2001 the Ministers for Ports and Transport jointly announced that open access to the services of the State’s rail freight network infrastructure would be declared from 1 July 2001 onwards. This included access to the following rail services:

- the rail track that is leased by Freight Australia but only to the extent that it is used for freight purposes (principally the country intrastate freight network);
- that part of the metropolitan network, leased to Bayside Trains (now trading as M Trains) that has been declared for freight purposes;
- the South Dynon terminal; and
- the Dyon terminal.

The rail access regime is based on a negotiate–arbitrate model that encourages access seekers and access providers to agree on the commercial terms and conditions of access to declared rail transport services. ORG’s role in the rail access regime is two-fold:

- it has an important role in facilitating negotiations about access through ensuring that appropriate information is available in relation to the terms and conditions of access; and
- it also has a role in making determinations on access in circumstances where commercial negotiations are unsuccessful.

In recent developments, Freight Australia has applied to the National Competition Authority (NCA) to have the regime declared under Part IIIA of the Trade Practices Act, while the Victorian Government has applied to the NCA to have the regime certified under Part IIIA of the Act.

**Western Australia**

**Office of Gas Access Regulation**

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 in respect of both gas transmission and distribution pipelines in the State.

Currently six pipelines or pipeline systems are covered under the code. Access arrangements for the midwest and south-west gas distribution systems and Parmelia pipeline were approved on 18 July 2000 and 15 December 2000 respectively.

The proposed access arrangements of three other pipelines are at various stages of the approval process. The requirement to lodge a proposed access arrangement for the remaining pipeline (Kambalda Lateral) has been deferred until 1 December 2002.

**Associate contract**

A proposed haulage contract between AlintaGas Networks Pty Ltd and AlintaGas Sales Pty Ltd was received on 28 February 2001 for approval under s. 7.1 of the National Third Party Access Code for Natural Gas Pipeline Systems. Following a public consultation...
period, which closed on 6 April 2001, the regulator approved the haulage contract on 18 April 2001.

### Ring fencing

Two draft decisions were 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. As a consequence, ring fencing arrangements for this pipeline must be in place by 30 September 2001.

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. On 18 May 2001 the regulator issued a notice granting the conditional waiver following new arrangements that were put in place separating the regulated functions from the non-regulated functions of the pipeline system.


### Office of Water Regulation

#### Benchmarking water supply services in WA towns

In June 2001 OWR published its first benchmarking report, Statistical profile and performance benchmarking of water supply services in 32 major Western Australian towns 1999/2000. The report uses metric benchmarking techniques to evaluate performance and public reporting to promote ‘competition by comparison’, and is the first in a planned series of industry performance reports.

Presenting pertinent statistics on water supply services in 32 towns served by the three licensees and benchmarking key aspects of performance, the report is considered to be a reliable barometer of water supply services in the State. The benchmarked towns are home to approximately 85 per cent of the Western Australian population.

Responses received from local, national and international water industry experts, water service providers and peak water organisations have, almost without exception, been very favourable. OWR has been particularly encouraged by complimentary comments from respected and credible global organisations (including the World Bank and the International Water Association).

The World Bank and PURC Economics have also asked ORG for permission to include the report on the Reference CD available to attendees of their International Training Program on Utility Regulation and Strategy. As a direct result of the publication of the report, OWR has been invited by the World Bank to partner in an international water industry benchmarking project and to establish Western Australia as a node on their international benchmarking network.

The new series of water industry performance benchmarking will report on 2001 and subsequent years. The second report in the series (about 1999–2000 sewerage services) is expected to be completed by November 2001.

Planned water and sewerage service reports based on data for the 2000–01 year will include the first longitudinal metric benchmarking studies on service provider performance. These reports are likely to be available in the first half of 2002.

#### Customer views sought on water and sewerage standards

In August 2001 the OWR started to consult customers on water and sewerage service standards. The consultation process aims to give customers a say in setting the service standards in water and sewerage service licences issued by the Office to WA water utilities.

A key objective of the review will be to obtain customer opinions on appropriate levels of service contained in the licenses. Licensee submissions, public submissions and the findings of the OWR will be made available to participants.

Information obtained through the review process will be used to improve the operating licences issued and managed by the OWR.

This is the first year such a consultation process has been undertaken. A discussion paper has been released and customers and interested parties have until the end of September to make a submission.


### South Australia

#### South Australian Independent Industry Regulator (SAIIR)

##### Regulatory matters

The SAIIR, Mr Lew Owens, has been appointed an associate member of the ACCC by the Federal Treasurer. Mr Owens’ term is for five years and expires on 31 December 2005.

##### Electricity

#### End of the grace period tariffs

The published (transitional) tariffs for contestable electricity customers (> 160 MWh/a) came to an end on 30 June 2001. Most contestable customers have now secured contracts. Contracts offered between April and June generally had the effect of increasing prices, with the average increase being about 30 per cent.

#### 2001–02 pricing approvals

Price increases in accordance with the electricity pricing order (EPO) have been approved: from 1 July distribution use of systems (DUOS) charges fell on average by 1.7 per cent, while franchise retail prices increased by 2.9 per cent. Optional kVA tariffs have been introduced by ETSA Utilities from 1 July.

#### Performance incentive scheme outcomes

The 2001–02 price review also for the first time incorporated an assessment of the performance of ElectraNet and ETSA Utilities under the innovative performance incentive (PI) schemes established under the EPO.
Under the PI schemes, the transmission and distribution network service providers earn or lose points depending on their performance against target service standards set out in the transmission and distribution codes.

For the year ended 31 March 2001, ElectraNet earned a $1 million bonus and ETSA Utilities incurred a $0.9 million penalty. The ACCC now administers the EPO for ElectraNet, and incorporated this PI outcome into its decision for 2001–02.

The ETSA Utilities’ penalty partly resulted from its under-performance during the recent extreme summer conditions on criteria such as number of interruptions, minutes off supply and time to restore supply. The deterioration in performance was particularly acute in rural and remote areas. ETSA Utilities’ performance on the ‘40 worst feeders’, however, resulted in it gaining points because of a significant improvement for these feeders.

Licence applications and approvals
Major licence applications currently being processed by the SAIIR include:

- Southernlink Transmission Company Pty Ltd — transmission licence for proposed interconnect between SA and Victoria (known as Southernlink);
- Australian Energy Services Pty Ltd — licence authorising retailing of electricity to contestable customers;
- Ausker Energies Pty Ltd — generation licence for proposed wind farm at Tungketta Hill; and
- Transgrid — transmission licence for proposed SA/NZW interconnector (SNI). A discussion paper on this application was issued in August 2001.

In June 2001 the SAIIR issued a licence to Tarong Energy Corporation, authorising retailing of electricity to contestable customers in SA. The retail licence held by ACTEW retail was transferred to the ActewAGL joint venture in June. A generation licence was issued to AGL Power Generation (SA) Pty Ltd in August 2001 authorising operation of a power station to be built at Hallett in the mid-north of SA.

New papers and brochures

Operational ring fencing
- A discussion paper, Operational ring fencing requirements in the SA electricity supply industry, was released in May 2001 for public comment. The paper discussed the need for additional ring fencing arrangements for the monopoly electricity businesses in SA. Consultation on the paper has now ended and a draft decision will be released in August.

Electricity reselling
- The reselling of electricity (usually by owners/landlords of shopping centres, caravan parks, office buildings and industrial parks’ landlords reselling to tenants) is common in South Australia. The electricity (general) regulations set out the circumstances in which contestable inset customers must be given access to the retailer of their choice, establish the maximum price that operators can charge inset customers that do not have access to the retailer of their choice (because of an existing lease agreement), and dispute resolution requirements.

The SAIIR has released two advisory bulletins covering:

- requirements to provide information to inset customers;
- rights of inset customers to access electricity retailers, in general and following the refurbishment of premises;
- operation and maintenance of the inset network, including compliance with standards;
- the price cap for inset network customers; and
- the allocation of external network charges to inset customers that have access to their retailer of choice but who remain customers of the inset operator.

Power interruptions
An information brochure, Electricity supply interruptions: the facts has been released.

Research projects
Assessment of power reliability needs for 2010
To meet the expected needs of the digital economy SAIIR and ETSA Utilities have jointly engaged EPRI (Electrical Power and Research Institute) of the USA to prepare a report on the likely electricity power quality and reliability requirements for South Australian customers in 2010. The study will cover several key areas.

- How will technology and the digital economy change the power quality and reliability needs of future customers and how much are the customers willing to pay for these needs?
- What is the most cost-effective method for providing the required quality and reliability services to different customer segments (considering power system configurations for rural, urban, CBD network and customer-side electrical network)?
- What are the best practice technology, planning/design, and operating maintenance procedures that can be implemented by ETSA Utilities to provide the power quality and reliability requirements for the future customer segments?
- What will be the cost to implement utility-side improvements for achieving the required quality and reliability and how would that affect the price of electricity for the different customer classes?

Low income electricity consumers
The SAIIR, in conjunction with the SA Council of Social Services and the Council on the Ageing, is starting a project to identify and examine the issues for low-income residents of South Australia on the use of electricity and electricity services. The project, which will involve community consultation, will:

- provide information on low-income consumers’ experiences, needs, preferences and concerns in relation to the provision of electricity;
• identify the issues and concerns of low-income consumers on the cost and affordability of electricity;
• consider the need for information about electricity use, charges and options; and
• consider the value and appropriateness of concession arrangements and their current sources.

Submissions
Submissions were made by the SAIR to:
• the SA National Electricity Market Taskforce on the issue of price caps;
• the ACCC inquiry into the ARTC draft access undertaking for the rail network;
• NECA’s bidding and rebidding investigation; and
• NEMMCO’s discussion paper, Interconnector working group issues for consultation.

Details of the matters referred to including submissions, licence applications, and brochures may be found on the SAIR website at <http://www.sair.sa.gov.au>.

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

Ports
Legislation to privatise the SA Ports Corporation and to provide the SAIR with various regulatory powers for the ports sector, including access to ports channels, has been enacted.

ACT

Independent Competition and Regulatory Commission (ICRC)
In the 2000–01 financial year the ICRC undertook an increased range and number of activities.

In previous issues of Network the ICRC has reported on progress and the outcomes of inquiries into ACTION fares and taxi fares. There are some additional notes to make on those matters.

• The two-year price path for ACTION fares will mean that the ICRC will examine ACTION fares again in 2003. In the review the ICRC will look critically at the degree to which ACTION has delivered operational efficiencies, whether the community service obligations payments for ACTION are better defined and less prone to be used for deficit funding of ACTION services, and at an improved level of cost recovery in line with the ICRC’s determination.

• In the course of the current financial year, the ICRC will be resetting taxi fares for the period from 1 July 2002. In the review it will consider the effectiveness of the new pricing methodology introduced in the 2001 determination. The ICRC will also take into account the effect on the taxi industry of a number of government policy changes made in 2000–01, including the introduction of a second booking network, the transfer of Wheelchair Accessible Taxi licence management to the new network and the reduction in service barriers between Queanbeyan and Canberra. The reference for the inquiry was issued on 6 September 2001 and the final report is due by 30 May 2002.

Appointment of two new standing commissioners to the ICRC
At the end of June the ACT Government appointed two new standing commissioners to the ICRC. The new commissioners, Ms Robin Creyke and Mr Peter McGhie, became the first appointments under amendments to the ICRC Act in March 2000.

Robin Creyke is Associate Professor of law at the ANU, a part-time member of the Administrative Review Council and a consultant with Phillips Fox Solicitors, Deputy President of the Australian Institute of Administrative Law and a member of the Women Lawyers Association of the ACT.

Peter McGhie is a former economist for the Commercial Bank of Australia and Westpac and Chief Manager of Westpac in Canberra. He has also been an adviser to Ord Minnett, Deputy Chancellor of the University of Canberra and financial adviser and Director to Agrecon Ltd (a partly owned company of the University of Canberra) and the university’s superannuation fund. The commissioners are both appointed for five-year terms.

Motor vehicle fuel price inquiry
On the basis of a recommendation from the ACT Legislative Assembly, the ACT Government issued a reference to the ICRC to inquire into motor vehicle fuel prices on 14 April 2001.

The main focuses of the inquiry were:
• whether current prices are efficient, including whether there are tied arrangements between wholesalers and retailers that restrict competition;
• how ACT prices compare to those in other places, particularly neighbouring Queanbeyan;
• whether price fluctuations, particularly those before paydays and holidays, disadvantage customers; and
• the effectiveness of the WA regulatory package and the possible benefits of its implementation in the ACT.

The terms of reference required that the inquiry not unnecessarily duplicate the current fuel price fluctuations inquiry by the ACCC and focus on changes that have occurred since previous ACT inquiries into the industry.

The investigative work of the inquiry was completed by 30 June 2001 and the final report was released in September and is available on the ICRC website.

New utility licences for gas, electricity, water and sewerage services
The ICRC completed assessing applications for the grant of licences under the Utilities Act 2000 in June. The Act, which commenced on 1 January this year, requires the Commission to assess applicants and to be satisfied, before granting a licence, that they are capable of providing the utility services they are
seeking a licence for and that they have the capacity to comply with licence conditions and to operate a viable business. Applicants must also satisfy any other requirements relevant to the ICRC’s objectives under the Act.

All participants in the ACT’s electricity, gas, water and sewerage markets were successful in their licence applications. Some 19 licences were issued to utility service providers with the licences taking effect from 1 July 2001. The licensees include all previous licensed and authorised gas and electricity network service providers and suppliers and, for the first time, the ACT’s water and sewerage service provider.

Over the next few months the ICRC will be finalising the details of its licence compliance program. Licensees will be required to report annually on the performance of their functions under the Utilities Act and, in particular, on any non-compliance with the Act, licence or codes of practice. Licensees will also occasionally be required to have their compliance independently audited.

ICRC has also been working with other agencies to ensure a smooth transition to competitive gas and electricity retail markets in the ACT and develop any outstanding rules needed to support full retail contestability. The ICRC will particularly be considering the adequacy of current consumer protection measures and the issuing of ring fencing guidelines. The date for full retail contestability in electricity in the ACT remains 1 January 2002.

Exemptions from the licence requirement

Section 21 of the Utilities Act provides that all utility service providers must have a licence to provide services in the ACT. However, in some circumstances the Minister may grant an exemption from the need for a licence (s. 22). The circumstances that would give rise to an exemption are not spelled out in the Utilities Act. However, the ICRC, as the adviser to the Minister on these matters, generally regards the likely circumstances in which such an exemption should be issued as extraordinary. In the process leading up to the issue of licences in June, two applications were received for exemptions. Great Southern Energy and Queanbeyan City Council applied to the Minister about the former’s 10 kilometre odd electricity distribution line that runs across the ACT to the east of Queanbeyan and the latter’s sewerage treatment works in Oaks Estate.

In both cases the Minister granted an exemption. The exemption for the Queanbeyan City Council sewerage treatment works was issued unconditionally, reflecting the historic nature of the arrangements surrounding the location of the works and the services it provides. The Great Southern Energy distribution line was exempted, subject to future reassessment should the circumstances of the energy supply to customers in the ACT change. In particular, if the number of GSE customers significantly increased or the distribution line were to become a substantial network service, the exemption may lapse and the requirement to have a licence be enforced.

Capital contributions codes for electricity and gas networks

The ICRC received proposed codes in May and June and approved them in time for the beginning of the new financial year. The codes are relatively high level statements of principle and reflect the existing capital contribution arrangements. While the codes are satisfactory as a start-up set of arrangements, the ICRC has made it clear to ActewAGL, the network service provider in both gas and electricity, that it will consider them again later in 2001–02. At that time the ICRC may have access to capital contributions approaches in other jurisdictions to draw on.

Standard customer contracts

For all network services the new legislation requires that the network service provider have a standard customer contract approved by the ICRC. ActewAGL submitted proposed contracts for consideration and negotiated an acceptable final draft in time for the contracts to be gazetted before 30 June 2001. The current contracts reflect the conditions of the Act, the codes and the network providers’ obligations elsewhere (e.g., the gas code and the electricity code).

Further information is available either on the ICRC website or from Ian Primrose on ian.primrose@act.gov.au or (02) 6205 0779.

New South Wales

Independent Pricing and Regulatory Tribunal (IPART)

Energy licensing

2000–01 Electricity Licence Compliance Report

IPART is currently preparing its report to the Minister of Energy on electricity businesses’ compliance with their licence conditions during 2000–01. The report is due by 31 October 2001.

Review of energy licence operation and administration

IPART is continuing with its review of the operation and administration of energy licences in NSW. Submissions received in response to an issues paper have been posted on IPART’s website, and work is progressing towards a stakeholder forum on Friday, 2 November 2001. The review is to be completed by May 2002.

Electricity

Ring fencing

IPART released a draft report and guidelines in June 2001. The report proposes legal separation, physical separation of offices and information systems, and a rigorous compliance program. Submissions have now closed. IPART expects to release a final report and guidelines before the end of the year.

Accounting Separation Code

In August 2001 IPART released the draft proposed Accounting Separation Code of Practice for regulated electricity businesses. The proposed code revises the existing code and sets out the basis for the financial separation of the regulated
network activities from associated supply and unregulated activities. It also sets out the requirements for the preparation and reporting of annual regulatory accounts. Comments are due by Friday, 26 October 2001.

Form of economic regulation review

In the lead up to the 2004 network determination, IPART is considering whether it should amend the form of economic regulation. IPART released an issues paper in August 2001. Submissions closed on 21 September. IPART will be conducting a public forum on Friday, 30 November 2001 and expects to release a draft report in February 2002.

Capital contributions

IPART is currently preparing a draft determination on capital contributions that DNSPs may charge for connection to the network. IPART will release the draft report in October 2001. Following a period for consideration of any submissions, IPART will release its final determination.

Report and monitoring on ETEF

The Treasurer has requested that IPART, under s. 87 of the Electricity Supply Act 1995, monitor and report on the extent to which each of the standard retail suppliers in NSW has complied with s. 43ER during the six months to 30 June 2001. To undertake this task, IPART has sought the assistance of an external audit firm.

Quality of service

IPART is chairing a working group of regulators and ESAA representatives on the alignment of quality of service measurement and reporting. The working group was established by the Steering Committee on National Regulatory Reporting Requirements.

Demand management

The Premier has asked IPART to inquire into demand management and electricity network services. IPART released an issues paper in July 2001. Public submissions closed on Friday, 31 August 2001.

The review is to be finalised by June 2002 and IPART expects to release a draft report in February 2002.

Gas

Associate contracts

IPART recently released draft associate contract guidelines. The guidelines are designed to provide:

- an outline of the code and IPART’s requirements;
- an outline of the information requirements necessary when submitting an application;
- some indication of the matters that IPART may consider in its assessment of proposed associate contracts; and
- encourage a process for formal notification on a ‘without prejudice’ basis before formal applications are lodged for approval.

IPART expects to finalise the guidelines by the end of October 2001.

Retail reviews

IPART is currently reviewing retail prices for NSW gas customers (using less than 1 TJ p.a. approximately $12 000) of Country Energy and Origin Energy. IPART expects to release a draft report in October 2001.

Water

Water licensing

IPART has recommended to the Minister for Energy and Utilities revised systems performance standards and customer service indicators for Sydney Water Corporation. It is also conducting a review of Sydney Water’s customer contract. This review is due for completion in October 2001.

IPART is due to complete its review of Hunter Water Corporation’s operating licence in March 2002. An issues paper is available from its website. A workshop with key stakeholders will be held in Newcastle in November. Mid-term reviews of the operating licences of Sydney Water and Sydney Catchment Authority are to commence in January 2002 for completion by June 2002.

Annual operating licence audits are underway for Sydney Water, Sydney Catchment Authority and Hunter Water. These are due for completion in the period from December 2001 to February 2002.

Bulk water

IPART will release its draft determination of bulk water prices in early October. A public hearing was held in Sydney together with workshops in Armidale and Griffith.

The Department of Land and Water Conservation has requested price increases of up to 20 per cent a year for the next three years. IPART has released consultants’ reports reviewing the department’s operating, capital and resource management expenditure.

The consultants have recommended revisions to the department’s cost estimate of providing bulk water services. They also recommend adopting impactor pays as the basis for allocating costs between water extractors and the general community.

Transport

IPART has released a discussion paper on the social costs and benefits of public transport prepared by the Centre of International Economics. The paper was presented to a workshop of key stakeholders as part of IPART’s process for determining maximum public transport fares.

In June IPART completed its annual determination of public transport fares for the State Rail Authority (SRA) services, and State Transit Authority (STA). IPART granted SRA a weighted average fare increase of 3.3 per cent, consistent with its submission to IPART, but rejected the proposed increases submitted by STA. Sydney buses, Sydney ferries and Newcastle services were granted weighted average fare increases of 4.8, 5.0 and 3.7 per cent respectively. IPART also rejected STA’s proposal for a medium-term price path for Sydney buses.
In June IPART submitted to the Transport Minister its final report on the recommended depreciated optimised replacement cost (DORC) value of Rail Infrastructure Corporation’s Hunter Valley assets. This was accompanied by an independent consultant’s report.

IPART conducted price reviews of taxis, private buses and private ferries under s. 9 of the IPART Act. These reviews provided recommendations to the Minister for Transport. Consultation was confined to the relevant industry associations, the Department of Transport and, where applicable, the relevant union.

Cross industry

Quality of service

Following comments on the paper prepared by the Allen Consulting Group on the linkage between quality of service and price regulation, IPART will consider the extent and form of the application of these principles in the context of the circumstances of each of the sectors it regulates.

In August IPART published a paper by CIE that reviewed various approaches to assessing customer preferences. The paper provides guidance on the merits of the various approaches to assessing willingness to pay for different levels of quality of service and indicates the uncertainties that inevitably surround such studies.

All reports and documents mentioned can be downloaded from IPART’s website.

Tasmania

Change of name: Office of the Tasmanian Energy Regulator

The name of the Office of the Tasmanian Electricity Regulator has been changed to reflect additional responsibilities for regulation of the proposed natural gas development in the State.

Natural gas

Gas tender process

The Tasmanian natural gas project is progressing through the Duke Energy International proposal for the installation of a gas transmission pipeline from Longford (Victoria) to Georgetown (Tasmania) with extensions to Port Latta (west of Burnie) and Hobart. The Tasmanian Government intends to select a distributor, award a distribution franchise and determine reference tariffs through the competitive tender process under the National Third Party Access Code for Natural Gas Pipelines Systems. The State has elected to go to the market with a ‘stapled’ distribution and retail franchise offering, which in its view is likely to provide the most competitive outcome.

The State wants tariffs set in a competitive market and therefore naturally achieve the objectives which the code otherwise seeks to achieve by more direct regulatory means. The Office of the Energy Regulator includes the office of the local regulator under the code. The regulator has a significant role in the tender process, as the State is required to obtain the approval of the regulator for the proposed process. The matters of which the regulator must be satisfied to approve a tender process are detailed by the code.

Upon approval of the tender approval request (TAR), the State will call for expressions of interest from bidders, and commence the bidder evaluation phase. The conduct of the tender and the evaluation process will be monitored by a probity reporter acting on behalf of, and reporting to, the regulator.

As part of a code compliant tender process, bidders may be asked to lodge their proposals with respect to reference tariffs, reference services and other matters. The regulator must, at the conclusion of the tender selection process then consider a final approval request (FAR) which confirms that the tender was conducted in accordance with the process initially approved, and provides tariff outcomes consistent with the objectives of the code.

Gas codes and licences

The Director of Gas is responsible for issuing gas retail and distribution licences under the Gas Pipelines Act 2000 and pipeline licences under the Gas Pipelines Act 2000. The Director has decided to issue gas distribution and retail codes.

Public consultation on drafts of the gas licences and codes is planned for the second half of August 2001.

Electricity

New electricity tariff

The State Government recently removed the 5 per cent government levy on electricity accounts. As a consequence Aurora Energy, the electricity retailer, has released a new electricity tariff which was approved by the regulator.

Pricing investigation

The regulator is currently required to make an electricity pricing determination by December 2002 for application from 1 January 2003. Preliminary work for the investigation has started.

Code Change Panel (CCP)

The CCP has undertaken initial consultation on a proposal from the regulator for a new Tasmanian Electricity Code chapter regulating vegetation management around distribution powerlines.

A consultative committee has been established to advise the CCP and to comment on input received through consultation.

Reliability Network and Planning Panel

The System Controller issued the Planning Statement 2000 in January 2001 as required by the Tasmanian Electricity Code. The regulator has requested the panel to review the planning statement and the asset management plans of the electricity companies and to report on the implications for system security.

Licensing

In April 2001 the regulator issued a generation licence to Energy Equipment Pty Limited for a proposed 20MW generating plant in northern Tasmania. This is the first of a number of licence applications expected for relatively small generators fuelled by biomass.
Customer Consultative Committee

The regulator intends to expand the role of the committee to include gas issues, reflecting the new responsibilities of the regulator’s office in that area.

Government Prices Oversight Commission (GPOC)

MAIB pricing policies investigation

The GPOC completed its investigation into the pricing policies of the Motor Accidents Insurance Board (MAIB) and submitted the final report on 31 August 2000, with recommendations taking effect on 1 December 2001. The GPOC is required to investigate the pricing policies of the MAIB every three years.

The MAIB scheme provides both common law and no-fault benefits and is one of the lowest cost schemes in Australia. One of its features is that it provides care for life on a needs basis for the very seriously injured, rather than settling such claims. The result is that the scheme is developing a significant portfolio of long-term claims.

The GPOC’s investigation considered the solvency and future issues for the fund, particularly in regard to growth in long-term claims. The GPOC recommended:

- that the scheme be protected from the effect of very large claims by limiting compensation for loss of earnings to $2000 (after tax) per week and the placement of a cap on the scheduled disability benefit;
- that the maximum average premium be set at the prevailing level, increased annually to reflect changes in average weekly ordinary time earnings for each of the three years from 1 December 2000; and
- increases of 15 per cent (to be phased in over three years) in addition to inflation for medium and large passenger vehicles, heavy goods vehicles and taxis to better reflect risks associated with these classes.

These recommendations now bring premiums into close alignment with risk for all classes. The final report also included observations about asset allocation and investment strategies and the adequacy of accounting standards to properly reflect the underlying financial performance of the scheme.

Bulk water pricing policies investigation

On 31 July 2001 the GPOC completed its investigation into the pricing policies of the Hobart Regional Water Authority (Hobart Water), the North West Water Authority (Cradle Coast Water) and Esk Water Authority (Esk Water) and submitted the final report to the Treasurer, the portfolio Minister, and relevant local government bodies.

In summary, the GPOC had the following recommendations.

- As a first principle, locational pricing (i.e. different prices at each supply point) is the preferred mechanism to allocate both volumetric and connection charges.
- The volumetric price at each node (supply point) should reflect the long-run marginal cost (LRMC) equal to the short-run marginal cost (SRMC) plus marginal capacity cost (MCC). The change in consumption associated with implementation of the revised price should be taken into account in estimating the MCC. However, where there is not significant variation in the nodal volumetric costs between nodes or where the loss of efficiency is not significant, it is acceptable to use a regional average of LRMC for the volumetric charge.
- If locational pricing is not used for the allocation of remaining costs then the GPOC proposes that these fixed charges be allocated according to the weighted number of connections in retailers’ networks. This mechanism will not bias the location decisions of those wanting new connections. Other mechanisms for allocation of fixed charges may also be acceptable; however, the practice of using a three-year rolling average to calculate the allocation of fixed charges should not be applied.

The GPOC also makes specific recommendations in relation to each authority’s pricing policies.

Local government two-part water pricing

The GPOC has carried out two tasks as a consultant to government — the development of guidelines for the cost-effectiveness test of the introduction of two-part pricing, and guidelines for implementation where cost effective.

Implementation by local government has encountered considerable opposition in some sectors and the GPOC has provided on-going assistance to some local governments, stressing the long-term objectives of pricing reform, detailing matters to be taken into account in the development of prices, and transitional measures to ameliorate adverse effects.

Competitive neutrality complaints

Tasmanian Ambulance Service

In August 2000 the GPOC received a complaint alleging that the Department of Health and Human Services (DHHS) failed to comply with the competitive neutrality principles (CNPs) of the pricing policy of Tasmanian Ambulance Service’s (TAS) non-emergency ambulance services.

The GPOC found that the complaint was justified, and recommended:

- that the Director of Ambulance Services be directed by the Minister for Health and Human Services to apply the CNPs to the patient transport services provided by the Tasmanian Ambulance Service subject to the public benefit assessment required by the application statement; and
- to consider all issues prescribed in the application statement and the public benefit guidelines when conducting the public benefit
assessments, in particular, the impact of the non-application of CNPs on the private market.

Valuation of Crown land by Valuer-General

In October 2001 the GPOC received a competitive neutrality complaint lodged jointly by the Central Highlands Council and Derwent Valley Council (the complainants) alleging that the Valuer-General has breached the CNPs in exercising his discretion not to value land owned by Government Business Enterprises (GBEs) and Crown land occupied by GBEs.

Under the Land Valuation Act 1971, the Valuer-General must value land before councils can impose rates. The complainants alleged that they have been adversely affected by the Valuer-General’s decision not to value the land concerned.

The GPOC, on the advice of the Solicitor-General, determined that the complainant’s concerns are not a competitive neutrality issue as the Valuer-General is not conducting a business activity. The Valuer-General was performing his regulatory duty when deciding not to rate the land concerned. The determination was the subject of a court challenge, which was subsequently withdrawn.

Fuel price monitoring

At the Treasurer’s request, the GPOC has been monitoring and reporting Tasmanian wholesale and retail petrol prices since August 1999 and average retail prices for diesel and LPG (Autogas) since April 2000. This was to address community concerns about the higher fuel prices paid by Tasmanians relative to mainland motorists.

In general, the GPOC has found heavy petrol discounting in the south of the State after the entry of Liberty (an independent discount petrol retailer) into Hobart’s retail petrol market in September 2000. The same level of discounting has not been evident in the north of the State. There is still a significant gap (up to 10 cents per litre) between Hobart petrol prices and those in the north of the State.

Contact: Andrew Reeves, GPOC (03) 6233 5665

Queensland

Queensland Competition Authority (QCA)

Water

The major focus of the QCA’s activity in respect of the water sector continues to be the investigation into the pricing practices of the Gladstone Area Water Board. (See Network, issue 7.)

Submissions from relevant stakeholders have now been received and are being assessed. It is anticipated that a draft report will be released for public comment in August 2001.

The QCA has also received a direction from its Ministers to review the bulk water activities of 18 councils with a view to determining whether they are monopoly or near-monopoly business activities. A report to the Ministers is due in mid-October 2001.

Contact: Rick Stankiewicz (07) 3222 0510

Local government

The QCA has received advice from its Ministers that its recommendations for payment as a result of the third review of councils’ performance have been accepted. Additional payments were approved to certain business activities because of changes to the scheme guidelines. The QCA has focused its efforts in recent months on helping councils understand the requirements of the scheme. The fourth review of councils’ performance was held on 1 August 2001 and covers the 12 months from 1 August 2000 to 31 July 2001.

Contacts: Rick Stankiewicz (07) 3222 0510
George Passmore (07) 3222 0545

Rail

In July 2001 the QCA released its final decision on Queensland Rail’s (QR’s) draft undertaking regarding third party access to its rail transport infrastructure.

After full consideration of all submissions made in respect of the QCA’s draft decision issued in December 2000, the QCA decided not to approve QR’s draft undertaking. Substantive amendments to both the price and non-price terms and conditions are required before approval could be given.

The final decision proposes reference tariffs for the four coal corridors on QR’s Central Queensland network. On the basis of these proposed reference tariffs, QR’s access revenues from the coal network are expected to average approximately $256 million per annum. This excludes the revenues from electric traction charges over the initial regulatory period to 30 June 2005. Those charges are expected to raise a further $44 million bringing the total revenue to an expected $300 million.

As part of the regulatory arrangements, the QCA proposes to offer QR a choice between a price cap based on the independent coal demand forecasts adopted by the QCA and a revenue cap. Should QR opt for a revenue cap, the reference tariffs proposed by the QCA will apply for 2001–02, with...
appropriate adjustments to account for any under- or over-recovery of revenues. QR will be required to make the choice between a price and revenue cap as part of any approved access undertaking.

The total gross replacement value (GRV) of the regulated assets is $2.85 billion, which includes $508 million of electrical overhead infrastructure. The opening asset value, as at 1 July 2001 and expressed in nominal terms, used in the calculation of the reference tariffs, is $1.76 billion for below-rail assets (including track, signals and earthworks) and $267 million for electric traction assets or $2.03 billion in total.

The risk-free rate, based on the 10-year Commonwealth Government bond yield averaged over 20 trading days and commencing on 22 May, is 5.97 per cent. The post-tax nominal rate of return is 8.68 per cent.

Initial undertaking notice

The final decision represents the final step in a process that has now concluded. According to the QCA there is an urgent need for an access undertaking for QR’s declared below-rail services.

Consequently, in accordance with s.133 of the Queensland Competition Authority Act 1997, the QCA issued a notice on 5 July requiring a draft undertaking from QR for the services declared under the Queensland Competition Authority Regulation 1997. The issuing of this notice should set in motion a series of events that need to be completed within timeframes provided under the QCA Act.

In this regard, QR must submit the draft undertaking within 90 days of the date of the notice, unless that timeframe is extended by the QCA. QR has advised the QCA that it expects to be able to provide a draft undertaking within 90 days.

Copies of the draft and final decisions, 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>.

Contact: Matt Rodgers
(07) 3222 0526

Electricity

The QCA’s final determination on the regulation of electricity distribution, released in May 2001, established the framework for electricity distribution pricing in Queensland for the four-year regulatory period beginning 1 July 2001.

Rather than approving each tariff individually, the QCA required distribution network service providers (DNSPs) to submit a pricing principles statement (PPS) before the beginning of the regulatory period. The PPS addressed pricing objectives, pricing principles and method, and an undertaking on the type of analysis to be provided annually to demonstrate that the proposed prices in that year conform with the approved pricing principles and method.

The PPSs are available on the DNSPs’ websites (see below) and the QCA’s website at <http://www.qca.org.au>.

The QCA required DNSPs to demonstrate that the prices they submitted for approval satisfied the requirements that:

- the proposed prices are expected to recover revenue in 2001–02 that does not exceed the revenue cap set for that year;
- the proposed prices do not involve breaches of the side constraints set for the various customer groups;
- the proposed prices do not involve cross-subsidies; and
- the structure of prices (the balance of fixed, demand and energy components) is consistent with economic pricing principles.

Following an iterative process, the tariffs submitted by the DNSPs for 2001–02 were approved in June 2001 and were communicated to customers. Directly in the case of customers who received individually calculated tariffs, or through publication of price books, which are available on DNSPs’ websites at <http://www.energex.com.au> and <http://www.ergon.com.au>,

Contact: Gary Henry
(07) 3222 0504
Dennis Molloy
(07) 3222 0519

Northern Territory

Utilities Commission

Regulated electricity networks

In its determination (June 2000) of the revenue caps for 2000–01 and the ‘X’ factors to apply in 2001–02 and 2002–03, the Commission indicated that it would permit adjustments for the purpose of setting the 2001–02 and 2002–03 caps in specific circumstances, notably any substantial change in either planned capital expenditure or trend energy sales growth. After evaluating data provided by the Power and Water Authority (PAWA) in May 2001 the Commission concluded that no adjustment was warranted and subsequently determined the revenue caps for 2001–02 based upon parameters set in the 2000–01 determination.

Darwin–Katherine transmission line

As part of its explanatory paper accompanying the 2001–02 revenue cap determination, the Commission included a provisional calculation of the increased revenue allowed as a consequence of PAWA’s purchase of the Darwin–Katherine transmission line (DKTL). While the associated legislative amendments came into force on 19 July 2001, this calculation cannot be formally ratified by the Commission, or take effect, until the DKTL is prescribed by the Regulatory Minister as a regulated network.

Community service obligation (CSO) payments

The Commission has finalised its valuation of the CSOs provided by PAWA in the electricity, water and sewerage services areas, principally associated with the Government’s policies of uniform (franchise) retail tariffs across the Territory and a below-cost (franchise) retail price cap.
in Darwin. In the process, PAWA’s cost allocations between lines of business and business segments were examined resulting in an adjustment of some of PAWA’s related accounting policies and procedures to conform with the Commission’s requirements. The valuation implies that PAWA’s prices currently underrecover about 15 per cent of its costs. Only about one-quarter of this under-recovery is currently met by CSO payments from the NT Government. The funding of the remaining CSOs — and the role to be played by budget funding as opposed to acceptance of a below-par rate of return target — is a matter now under consideration by NT Treasury.

**Annual power system review**
The Electricity Reform Act requires the Commission to monitor and report on system capacity, including an annual review of trends in system capacity and reliability relative to forecast growth. It is anticipated that the first report will be released in September 2001.

**Ring fencing**
The new Northern Territory electricity ring fencing code commenced on 1 July 2001. The code requires prescribed businesses (currently only PAWA) to draft specific cost allocation, accounting and information sharing procedures in accordance with a general set of principles enunciated by the Commission, and to submit those draft procedures to the Commission for approval. The draft accounting and cost allocation procedures are due to be submitted for approval by 30 September 2001, and the information sharing procedures by 31 December 2001.

**Purchase of electricity for contestable NT government customers**
The NT Department of Corporate and Information Services has formulated a request for proposal (RFP) document designed to facilitate tendering for the supply of electricity to contestable NT government sites. Currently, all contestable agencies remain as ‘grace period’ customers. The RFP contains provisions which, among other things, stress the provision of value added services and would penalise retailers if minimum reliability standards were not met. The Commission is considering whether the RFP might be structured in such a way that the tendering process may inadvertently be neither competitively neutral or fair to other (smaller) contestable customers. The Commission is exploring whether current market and regulatory arrangements should be supplemented or modified to avoid these inappropriate outcomes.

**Anti-competitive pricing**
The Commission is undertaking preliminary investigations into a complaint that PAWA’s pricing practices, since the introduction of contestability, have been anti-competitive on competitive neutrality and ring-fencing grounds. A roundtable has been convened to explore the complaint and in an attempt to resolve the subject matter of the complaint.

**Water and sewerage**
The Water Supply and Sewerage Services Act, which took effect on 1 January 2001, provides for a transitional period whereby licensing is not required until 12 months after the commencement of the Act. The Commission has agreed to defer consideration of licence applications until the various technical and management codes required under the legislation are nearing completion. A timetable has been put in place, with a view to finalisation by end-2001.

**Other**

**Further report to Utility Regulators Forum**
In its recently published position paper on the review of the National Access Regime the Productivity Commission found that ‘Greater use of productivity-based approaches for setting price caps … would be desirable. Regulators should give priority to developing the external benchmarks necessary to implement such approaches’. CitiPower is heartened by such observations but notes that there is a widespread and poor understanding of the practical issues associated with productivity measurement, particularly in the context of external forms of incentive regulation.

CitiPower has prepared a follow-up discussion paper to its initial response to the Utility Regulators Forum paper authored by Dr Albon. In its latest paper titled, *Incentive regulation and external performance measures: operationalising TFP — practical implementation issues*, CitiPower seeks to move the debate along from the ‘philosophy of regulation’ to implementation issues. CitiPower trusts that this discussion paper will continue to promote informed discussion and policy development amongst industry, regulators and government.

Copies of the discussion paper are available from Paul Fearon, contact (03) 9297 8930.
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:
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# Contacts

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<tr>
<th>ACCC</th>
<th>Regulators Forum issues</th>
<th>Mr Joe Dimasi</th>
<th>(03) 9290 1814</th>
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<tr>
<td></td>
<td>Newsletters</td>
<td>Ms Katrina Huntington</td>
<td>(03) 9290 1915</td>
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<td>Airports</td>
<td>Ms Margaret Arblaster</td>
<td>(03) 9290 1862</td>
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<td></td>
<td>Electricity</td>
<td>Mr Michael Rawstron</td>
<td>(02) 6243 1249</td>
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<td></td>
<td>Gas</td>
<td>Ms Kanwaljit Kaur</td>
<td>(02) 6243 1259</td>
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<td></td>
<td>Telecommunications</td>
<td>Mr Michael Cosgrave</td>
<td>(03) 9290 1914</td>
</tr>
<tr>
<td></td>
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<th>NSW</th>
<th>Independent Pricing and Regulatory Tribunal (IPART)</th>
<th>Dr Tom Parry</th>
<th>(02) 9290 8411</th>
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<th>VIC</th>
<th>Office of the Regulator-General (ORG)</th>
<th>Dr John Tamblyn</th>
<th>(03) 9651 0223</th>
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<th>Govt Prices Oversight Commission (GPOC)</th>
<th>Mr Andrew Reeves</th>
<th>(03) 6233 5665</th>
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<td>Office of the Tasmanian Energy Regulator (OTTER)</td>
<td>Mr Andrew Reeves</td>
<td>(03) 6233 6323</td>
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<th>Mr John Hall</th>
<th>(07) 3222 0500</th>
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<th>Office for the Gas Access Regulator (OffGAR)</th>
<th>Dr Ken Michael</th>
<th>(08) 9213 1900</th>
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<td></td>
<td>Office of Water Regulation</td>
<td>Dr Brian Martin</td>
<td>(08) 9213 0100</td>
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<th>Mr Graham Scott</th>
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<td>South Australian Independent Industry Regulator (SAIIR)</td>
<td>Mr Lew Owens</td>
<td>(08) 8463 4450</td>
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<th>Mr Paul Baxter</th>
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<th>NT</th>
<th>Utilities Commission</th>
<th>Mr Alan Tregilgas</th>
<th>(08) 8999 5480</th>
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<td></td>
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