

Ref: GL:JC:C161177

11 November 2005

Manager – MCE Secretariat
Department of Industry, Tourism and Resources
GPO Box 9839
Canberra ACT 2601

Dear Sir

Re: National Framework Schedule for Distribution and Retail Functions

Country Energy welcomes the opportunity to provide comment on the proposed framework schedule for transfer of distribution and retail functions, released for stakeholder consultation. Please find attached our submission to the initial framework.

If you have any queries please feel free to contact me on 02 6589 8419 or Gerard Lang on 02 6338 3410.

Yours sincerely

Natalie Banicevic
General Manager Regulatory Affairs

Att. 1.

RESPONSE ON THE PROPOSED FRAMEWORK SCHEDULE FOR TRANSFER OF DISTRIBUTION AND RETAIL FUNCTIONS

Introduction

Country Energy is a leading Australian energy services corporation owned by the New South Wales Government. We manage Australia's largest power supply network across 95 per cent of New South Wales' land mass, employ 3,300 staff and provide services to 800,000 customers. Country Energy offer retail electricity in five states and territories, and natural gas in New South Wales and the Australian Capital Territory with a product range that includes bottled gas, internet services and energy efficiency advice. We also provide water services to 10,000 customers in far west New South Wales.

Central to Country Energy's position on regulatory change is the strong contention that the long term interests of the community are best served by a comprehensive, national policy approach for the majority of the functions listed in the proposed framework schedule. Such a policy would establish a national framework for creating a clear, long term signal across the industry. This incentive is essential to achieving an appropriate balance between the economic benefits of energy and its regulatory costs. Ultimately, all segments of the community will bear the longer term consequences of policy response today which can be fragmented and at times does not fully utilise market-based solutions where possible.

Country Energy considers there are five principles which are fundamental to achieving a comprehensive regulatory policy framework that serves the long term interests of customers. These include:

1. effectiveness and efficiency - actual reductions in regulatory costs occur at the efficient point determined by the market, and when governments take a light handed approach;
2. equity and transparency - the burden of regulatory change is allocated across the community in a fair and open manner;
3. administrative simplicity - the policy employed to reduce regulatory risk minimises the complexity and cost for participants;
4. regulatory certainty - the policy framework is robust and stable, establishing a long term signal for participants which can be communicated through all sectors; and
5. consistency and compatibility - the policy implemented means that customers can be treated equally no matter what state they reside in.

Whilst Country Energy believes it is important to agree on where broad distribution and retail functions must reside it is difficult at this embryonic stage to make categorical decisions on some of the functions in the absence of the full context and appropriate tests in the detail of the functions.

However, Country Energy has adopted a view of these functions which in principle we believe would be an improvement from existing and largely jurisdictionally based regulatory arrangements.

National Functions

The Gas Access Regime, being national rules of conduct for the gas industry, already covers the first 13 functions listed in the proposed framework schedule and hence we generally support the continued national approach to these functions. This also includes possible amendments to the Gas Access Regime proposed by the Productivity Commission review of this regime which was released in August 2004.

1. *Scope of distribution price regulation (services included, services excluded)*
2. *Price cap regulation for distribution services*
3. *Regulatory requirements in relation to tariff settings*

Country Energy supports a national approach to economic regulation of distribution. However Country Energy sees little merit in highlighting functions 1 through 3 separately as the functions are closely related to each other. For simplicity and practicality these functions would be best served if combined into a single function under the heading of distribution economic regulation.

4. *Service performance targets*

Country Energy supports the view that any service incentive scheme, mechanism or framework should be at a national level. However, responsibility for setting the service and reliability standards applicable to a service standard regulatory framework should remain with individual States initially. Country Energy also suggests that the service and reliability standards should be defined and measured consistently at the national level, regardless of who sets the standards.

5. *Information disclosure*

Consistent with a national approach to distribution economic regulation, information disclosure should also reside at the national level.

6. *Connection and capital contributions requirements*
7. *Distribution network expansion rules*
8. *Distributor obligation to provide connection services*
9. *Distributor disconnections and reconnections of small-end customers*
10. *Distributor interface with embedded generators*
11. *Distributor interface with retailers*

Country Energy supports a national approach to each of the functions listed above.

12. *Other Distribution related market rules*
13. *Network planning*

Country Energy believes that both of these functions should be removed. Country Energy does not support the inclusion of open ended functions that lack any specific guidance on what they may or may not include, and therefore recommends the removal of function 12 above. It is also not clear to Country Energy as to the intent of function 13 and where it is to be focused. Country Energy believes that it is not appropriate for either National or State bodies to perform network planning functions. Distribution network planning is carried out as a normal business operation within efficient investment guidelines and principles governed by the distribution pricing

process. Therefore network planning is best influenced through service standards regimes which are covered in functions 1 – 3 of this schedule rather than National or State bodies having direct involvement in network planning functions.

14. Metering

Country Energy believes that the obligations to install, maintain and read meters are appropriate at a national level and will result in consistency and certainty for customers and participants in the national market. However Country Energy does not support the transition of policies relating to types of meters required for specific customer classes to a national level. Policies relating to metering requirements for specific customers are best managed at a jurisdictional level.

15. Retail price regulation

Country Energy believes retail price regulation is best dealt with under current state based regimes; however the ultimate aim should be to ensure effective competition is demonstrated thus eliminating the need for retail price regulation in its current form. It is acknowledged in some areas, retail price regulation is required as effective competition in the retail electricity market has not been demonstrated. Therefore the focus should be on developing aspects of the market which are barriers to competition and implementation of a monitoring framework with respect to assessing the effectiveness of competition.

- 16. Retailer obligation to supply to small end-customer*
- 17. Retailer failure arrangements*
- 18. Retailer: Small end-customer market contracts*
- 19. Retailer: Small end-customer marketing*

Country Energy strongly supports a national framework for the above responsibilities. A national regime is already allowed for in the Trade Practices and Privacy Acts, and the need for energy specific regulation is not warranted and limits the achievement of the regulatory policy objectives outlined above.

20. TPA and Privacy Act provisions relevant to market contracts and marketing

Consistent with the comments made in relation to items 16 – 19, application of these instruments should be a key feature in any national regulatory framework and would provide a robust and comprehensive consumer protection platform.

21. Other retail related market rules not covered elsewhere

Where there is a clear need for the continuation of any retail market rules currently administered by jurisdictional regulators, these should be transferred to a national regime. If the need for transfer cannot be clearly demonstrated, then such rules should be abolished. However, in general, Country Energy does not support the inclusion of open ended functions that lack any specific guidance on what they may or may not include.

22. Balancing regime and settlements, effecting customer transfer in balancing and settlements system

Country Energy favours retaining current arrangements and independent market administrators in relation to balancing and settlements systems, but with harmonization between the organisations as a key objective.

23. Merits and judicial review

Country Energy supports a nationally consistent framework for both merits and judicial review, consistent with a national approach to distribution economic regulation.

24. Business authorisation

Country Energy supports the continuation of the licensing/authorisation function at state and territory level in relation to technical and safety arrangements. However, it is important that obligations arising at this level are or can be appropriately reflected in national regulatory outcomes.

25. Distributor – Small end-customers dispute resolution
26. Retailer – Small end-customers dispute resolution

Dispute resolution schemes should continue to operate at state and territory level. Attempts to align objectives, reporting and response procedures would be welcomed, and would improve effectiveness and efficiency in a national market.

27. Load shedding and curtailment

Load curtailment timetables need to be consistent for system security and reliability. If at all possible a national approach that is consistently applied across all states would be preferred to avoid situations where some states might load curtail starting at an industry level while other states may start from a domestic level. Situations like this compromise system security and make it difficult for NEMMCO and schedules under the NSW Gas Access arrangements to achieve their objectives.

28. Community service obligations

Country Energy supports the continuation of state-based Community Service Obligations in relation to specific government policy objectives. However, where an obligation is imposed as a performance standard then national consistency should be sought.

29. Environmental Obligations

Central to Country Energy's position on climate change is the strong contention that the long term interests of the community are best served by a comprehensive, national policy approach. Such a policy would establish a national framework for creating a clear, long term carbon signal across the economy. By making the environmental cost of energy transparent, a carbon signal provides an incentive for consumers to conserve energy and for producers to invest in cleaner energy technologies.

30. Local gas market arrangements

In the short to medium term Country Energy believes the process of trying to transition local gas market arrangement functions from Vencorp in Victoria, Gas Market Company in NSW and Retail Energy Market Company in South Australia and Western Australia is unattainable. However the goal or objective must be maintained of common practices and terminology across all states. Current processes in different states can be confusing for Retailers when essentially the process is the same. For these reasons Country Energy favours alignment of these practices to ensure consistency and efficiency of gas market arrangements. This may only be achieved through a national body overseeing the operation.

31. Fair trading legislation provisions relevant to market contracts and marketing

Fair trading arrangements relevant to market contracts and marketing should continue, although where these differ from or are inconsistent with the provisions of either the Trade Practices Act or the Privacy Act, then the national provisions should apply.

- 32. General business authorisations (licensing) for retailers and distributors*
- 33. Taxes and levies*
- 34. Redundant regulatory instruments*

Country Energy supports the continuation of the licensing/authorisation function at state and territory level in relation to technical and safety arrangements. However, it is important that obligations arising at this level are or can be appropriately reflected in national regulatory outcomes. All other compliance obligations should be maintained at a national level.