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Manger EMR Projects
National Energy Market Branch
Department of Industry, Tourism and Resources
GPO Box 9839
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Dear Sir

Submission by Exigency Management Pty Ltd on National Framework for Electricity and Gas Distribution and Retail Regulation, *Issues Paper and Appendix*, Allens Arthur Robinson August 2004 (The “AAR Report”)

Exigency Management Pty Ltd is a small specialist energy advisory firm. In many ways, Energy Market reform in Australia has followed a textbook path by implementing only essential reforms and allowing individual jurisdictions to “experiment” with different models within the overall market framework.

This has allowed different models to be implemented and evaluated and avoided the folly of an untried and ill-informed “grand design”. At the same time, the reform process has revealed a number of systemic failures and inefficiencies that have the potential to be addressed in the current reform process for the economic benefit of all. However, this can be achieved if and only if:

- An economically rational “best of breed” approach is taken across jurisdictions and between energy forms; and
- State derogations or exemptions from the national framework are removed or at least subject to a rigorous and transparent economic test.

Early in 2004, Exigency Management Pty Ltd wrote a report, commissioned by the NECA Advocacy Panel, on the arrangements for connection to electricity networks (“Whose Line is it Anyway” – see attached). In many ways this report reveals a microcosm of the unintended and adverse economic consequences created by a state-based regulatory approach.

To illuminate this point further we have set out below the ramifications of “Whose Line is it Anyway” for particular issues raised in the AAR Report:

AAR Issue	Whose Line is it Anyway – ramification
1 Regulatory Objectives and Principles	Whereas objectives and principles are consistent (economic efficiency, equity etc), differing interpretations at a jurisdictional and participant level have led to substantial variability in the processes and cost recovery methodology for obtaining connection to regulated networks
3 Pricing Methodologies	See above
5 Impact of Existing Electricity Distribution Price Determinations	As an excluded service, a case can be made for a transitional approach to harmonization. However, there is an urgent need to raise the different state-based approaches to a consistent level of transparency
17 Suggested National Exemption Regime	A case can be made for exempting contestability of works, subject to a rigorous economic test (approved by AER). However there should be no exemption from a common, consistent, rational and pragmatic cost recovery methodology
22 Variations of and Exemptions from Industry Codes	See 17 above
32 Other	A common, consistent regulatory approach to monitoring the interpretation and implementation of regulations by market participants is needed to mitigate the risk of “unintended consequences” and to ensure a “level playing field”. The regulator’s investigative powers should be proactive as it appears that issues exist but end users are reluctant to complain about them

I trust that the insights offered by our report and the above table will assist the MCE SCO in developing a national regulatory framework that is pragmatic, efficient and effective and avoids as far as possible a double layer of regulation.

Yours faithfully

Stuart Allinson
Director
Exigency Management Pty Ltd