

23 November 2012

Mr. Philip Weickhardt
Presiding Commissioner

Ms. Wendy Craik
Commissioner
Productivity Commission
Level 2, 15 Moore Street
Canberra ACT 2600

via email: electricity@pc.gov.au

Dear Mr. Weickhardt / Ms. Craik

**NSW DNSP Response to Productivity Commission Draft Report -
Electricity Network Regulatory Frameworks**

Introduction

The NSW Distribution Network Service Providers, Ausgrid, Endeavour Energy and Essential Energy (the NSW DNSPs) appreciate the opportunity to make this joint submission in response to the Productivity Commission's (the Commission's) October 2012 draft report titled *Electricity Network Regulatory Frameworks* (the Draft Report). The Draft Report was prepared in response to the request by the Commonwealth Government to assess, amongst other things, the use of benchmarking as a means of achieving the efficient delivery of network services and electricity infrastructure to meet the long term interests of consumers, consistent with the National Energy Objective (NEO).

I would like to acknowledge the valuable contribution that the Commission's inquiry can make in improving the efficiency and productivity of electricity networks. I note, however, that there have been a number of reviews into electricity pricing and regulation from policy makers (including the AEMC's *Power of Choice* Review and assessment of the AER / EUAA Rule change proposals, the Commonwealth Government's *Energy White Paper* and the Senate Select Committee on Electricity Prices) that aim to improve the efficacy of electricity networks. While the ultimate goal is improved productivity of the networks and reduced electricity prices for customers, duplicative consultative processes in and of themselves may impact on businesses' productivity and lead to conflicting recommendations.

The NSW DNSPs support the development of a coordinated and streamlined approach to the current policy debates on electricity regulation and urge that the debates are based on fact and robust logic. To assist the Commission, this submission highlights some key strategic concerns and outlines some errors of fact or inconsistencies in the Draft Report that, if left unaddressed, could lead to erroneous conclusions or misguided policy outcomes.

The NSW DNSPs' comments on the Commission's draft report can be summarised as follows:

Benchmarking

- We support the Commission's conclusion that benchmarking is not a reliable basis for deterministically setting regulated revenue allowances. As noted in the Commission's draft report, there is little consensus on the methodology for benchmarking electricity networks and compared to other industries, determining the appropriate input and outputs is not straightforward. This problem is compounded by the small sample size of Australian electricity distributors.
- The NSW DNSPs consider that benchmarking of utility productivity is in its infancy and that more analysis needs to be undertaken before benchmarking could be relied upon as a core element of regulatory revenue or price setting.
- The NSW DNSPs are concerned to ensure that any benchmarking considered in the assessment of a network business's productivity is robust and appropriately considers business specific circumstances. This is particularly the case when comparing suggested international and interstate "peer" organisations.

Cost Reflective Pricing

- Well designed, efficient pricing strategies can send a signal to customers about the true cost of consuming energy at peak times. When customers have feedback available about their energy use they are better placed to make informed decisions about their energy consumption patterns and can more effectively weigh up the costs and benefits of consuming energy at certain times.
- The basic metered tariffs faced by the majority of residential and small business customers are unable to provide accurate signals about the substantial cost of supplying peak network capacity. To provide more efficient price signals that better reflect the economic cost of supplying network capacity requires a move away from basic metered tariffs to time-based or demand-based tariffs. Basic accumulation meters are not able to accommodate these more sophisticated pricing signals. The costs and benefits of providing "smart" meters are discussed further below.
- Faced with more efficient price signals, consumers would have financial incentives to reduce or shift the timing of some or all of their peak electricity use, and network businesses would receive a signal about the value consumers place on additional peak capacity.
- While the Commission is confident that retailers will pass on time-based prices for network services to final customers, it should not be assumed. Ausgrid has approximately 325,000 residential customers on a network time of use (TOU) tariff, with the vast majority of these customers believed to also be charged on a TOU basis by their retailer. Ausgrid does not have visibility as to whether the retailers' TOU tariffs mirror the network TOU tariffs or tariff structures.
- We also note that the Commission has not sufficiently addressed the costs and benefits of direct load control scenarios. We consider that direct load control has a key role to play in managing peak demand for electricity distribution networks and suggest that this matter warrants more fulsome analysis. We would be keen to assist the Commission in sharing our experiences with direct load control in the lead up to the Final Report.

Smart Metering

- Reform of pricing structures is challenging and relies on the roll-out of supporting technology, such as smart meters.
- We do not consider that the potential costs and benefits to customers have been sufficiently evidenced to warrant the commencement of a mass smart meter rollout at this time - to this extent we support the Commission's stance to not support a mass rollout in the short term. We do, however, support the rollout of smart meters on a regional, case-by case basis when supported by a positive cost-benefit analysis.
- Without a "game-changer" in terms of the costs (or benefits) associated with a mass smart meter rollout, the NSW DNSPs do not see the benefits to customers exceeding the corresponding (and potentially significant) electricity price increases in the short to medium term. We note that many of the purported benefits for customers of smart metering have not been satisfactorily evidenced and that the benefits are necessarily experienced across the energy supply chain, rather than as benefits for customers from the provision of standard control distribution services. Therefore, alternative funding arrangements for smart meters beyond what the AER can reasonably set may be required in order to capture the electricity supply chain benefits.

Peak Demand

- We concur with the Commission's assessment that peak demand growth has slowed over the past two to three years. To this end, meeting peak demand growth is unlikely to be a primary driver of investment moving forward. Dealing with greenfield and brownfield residential and business growth and replacement of ageing assets will be the focus of NSW DNSP future capital investment programs.

AER Oversight of Prices

- We agree with the development of a uniform Long Run Marginal Cost (LRMC) methodology and accept the importance that LRMC has in the setting of efficient tariffs. However, we believe the Commission's recommendations are overly prescriptive and significantly limit a DNSP's ability to introduce efficient tariffs in a socially responsible manner.
- We agree with recommendation 12.1 that "...revenues from all distribution network 'standard control services' should be subject to regulated weighted average price (not revenue) caps" on the basis of strong evidence that (as per page 422) a "WAPC appears to be the preferable means of providing incentives for efficient network pricing, particularly in periods when consumers' electricity usage imposes the greatest system-wide costs (which in turn should encourage customers to change their usage patterns). It would be difficult to implement cost-reflective pricing as efficiently using revenue caps". As noted in the Draft Report, the AER has advocated the move away from a WAPC for the NSW DNSPs' upcoming regulatory determinations – a move we have strongly opposed.
- Finally, noting that the AER is proposing that a revenue cap apply to the NSW DNSPs for the next determinations, we support the Commission's draft finding (page 422) that a "WAPC appears to be the preferable means of providing incentives for efficient network pricing, particularly in periods when consumers' electricity usage imposes the greatest system-wide costs (which in turn should encourage customers to change their usage

patterns). It would be difficult to implement cost-reflective pricing as efficiently using revenue caps”.

Governance arrangements

- The NSW DNSPs support the establishment of a broadly representative consumer body provided that it subsumes the role of the existing Consumer Advocacy Panel into its broader functions and that information is made available on the governance arrangements of the new body.
- Given the significant increase in responsibilities and workload envisaged by the Commission for the AER, we support the recommendations for an independent review of the resourcing and capacity of the AER to undertake all of its functions and discharge its responsibilities; the capacity of the AER to share resources with a range of other agencies; the need to ensure that the AER establishes, and retains, the necessary specialist staff to carry out its role; and regular ongoing communication and interaction with network businesses, their customers and other relevant stakeholders.
- The NSW DNSPs do not support the Commission’s recommendation whereby the National Electricity Law (NEL) should be amended to expedite the making of rules arising from any appropriately conducted independent review relevant to the National Electricity Market (NEM) and that are agreed by the Standing Council on Energy and Resources (SCER). Sound regulatory practice suggests that any rule making power which would reduce the accountability and involvement of the AEMC as the expert rule maker and the opportunity for all interested stakeholders to be involved in the rule making process should be avoided.
- We support the AER being given independence from the ACCC and allowed to operate as a standalone independent energy regulator. As noted by the Commission, this would be consistent with the original institutional arrangements proposed for the NEM. The continued co-location in the ACCC (a multi-sectoral body that has competition and consumer protection functions) may present the risk of the regulator being influenced by political/public pressure, particularly in an environment of rising prices.

The following sections provide additional supporting information on the matters discussed above. Attachment A provides detailed responses to key recommendations contained in the Draft Report.

Benchmarking

We support the Commission’s conclusion that benchmarking is not a reliable basis for deterministically setting regulated revenue allowances. As noted in the Commission’s Draft Report, there is little consensus on the methodology for benchmarking electricity networks and compared to other industries, determining the appropriate input and outputs is not straightforward. This problem is compounded by the small sample size of Australian electricity distributors.

There is no single metric that can measure the overall performance of a distributor. Moreover, because benchmarking methodologies are open to subjective judgements, regulated companies are exposed to the risk that cost recovery will be denied for unpredictable and subjective reasons (as explained by Yarrow’s commentary provided in the Draft Report¹).

¹ Page 181, Productivity Commission Draft Report *Electricity Network Regulatory Frameworks*, October 2012

The Commission is sensitive to this risk and states that an important principle for the regulatory determination process is to ‘...recognise that, over the longer term, undercompensation [sic] of network businesses resulting from regulatory errors is likely to have greater costs for customers and the wider community than ‘equivalent’ overcompensation’.

Notwithstanding, benchmarking is not without merit. It can play an investigative role in the regulatory determination process to identify inefficient distributor practices and as noted by the Commission, can be used to assess unnecessary or inefficient regulation and/or policies. For example, removing regulations imposed on businesses that undermine efficiency and increase costs.

There is some likelihood that the use of benchmarking will become more sophisticated as data collection and methodologies become more advanced but we remain doubtful as to whether it could replace the need for detailed information or provide a ‘short circuit’ approach to the regulatory determination process. Nevertheless, we are supportive of the Commission’s criteria for the evaluation of benchmarking measures and note that they are not inconsistent with those developed by Frontier Economics for the UK electricity regulator Ofgem.

The criteria as identified will assist in identifying poor benchmarking analysis that does not account for factors outside the control of the business. Failing to account for these factors can provide misleading indicators of managerial efficiency and performance.

Empirical evidence of network efficiency levels

We recently undertook high level analysis of key differences between NSW and other jurisdictions. The analysis identified inherent differences between distributors that impact on cost structures including:

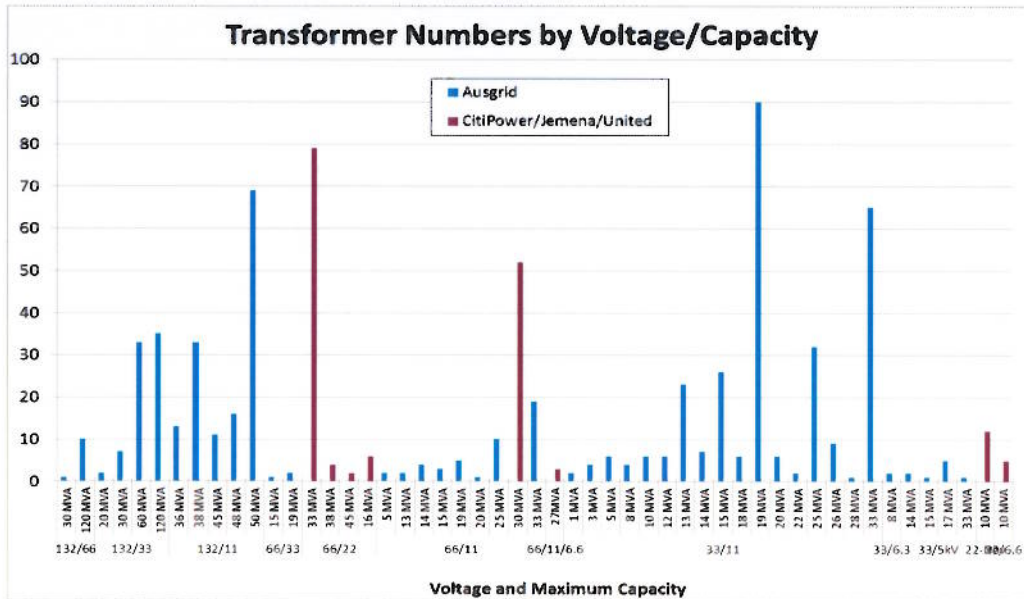
- a) Historical design of the distribution network including:
 - o Extent of the sub-transmission network; and
 - o Distribution operating voltages.
- b) Topological and environmental features such as waterways, terrain, weather and population density.

We also agree with the Commission that there are difficulties in accounting for the relative age of networks. Box 1 (below) suggests an approach that could be used to compare the replacement allowances of distributors. The analysis would provide a ‘ballpark’ estimate of replacement capital expenditure based on the modern day value of the asset base and the age profile of assets.

Extent of the sub-transmission network

A significant proportion of NSW and Queensland distribution networks are comprised of expensive sub-transmission assets including substantial quantities of underground (UG) cables (Ausgrid for example has 62% by length of Australia’s UG feeders rated above 100kV). This is a product of history. In NSW, distributors share the responsibilities of conveying electricity at high voltages with transmission companies. In contrast, Victorian networks start at a lower point of the network chain.

NSW distributor Ausgrid has a network that faces an additional burden which can be seen in the chart below. This chart illustrates that Ausgrid has over 60 transformers providing sub-transmission supply whereas Citipower and Powercor have no such assets.



The implication is that it is more costly to construct, maintain and replace assets on Ausgrid’s network. These costs compound further when the network is located in dense global cities like Sydney where under grounding of sub-transmission feeders is generally necessary.

Historic design of the distribution network

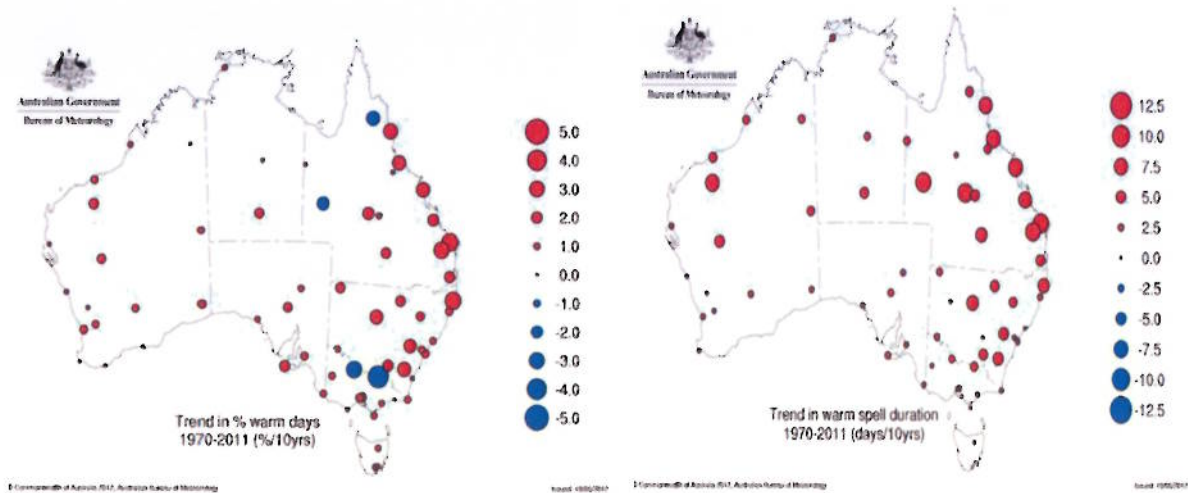
Legacy design issues also impact on the relative costs of constructing and maintaining the distribution network. For example, Ausgrid’s mid-voltage network was historically designed to convey electricity from zone substations to distribution centres using an 11kV distribution system. Victoria’s system is largely based on a 22kV system which provides about double the capacity for an equivalent sized conductor for similar costs. Put simply, as a matter of historic accident, this enables Victorian distributors to invest considerably less to deliver the same level of capacity.

There are extensive transition costs in moving to a 22kV network as a result of the meshed nature of networks. An analogy can be drawn with railway networks. Whilst wider trains may transport more customers, you cannot switch to wider gauges without reconstructing the entire track on which the train operates.

Topographical factors

Waterways, hills and national parks all play a significant part in the costs that a distributor incurs in constructing and maintaining assets. For example, the major population areas in Victoria are generally flat, leading to lower inherent cost of constructing and operating the network.

Ambient temperature also plays a critical part in the level of capacity investment required to meet peak demand. The diagrams below from the Bureau of Meteorology show that Queensland has an increasing trend of warm days and spells of warm weather. Victoria by contrast is not affected by this trend, while NSW is less affected than Queensland.



Box 1: Accounting for comparative age when undertaking benchmarking

In the draft report, the Commission has identified the difficulty in accounting for comparative age and value of networks when benchmarking distributors.

Our view is that a major contributor to our recent price shocks was suppressed replacement allowances in the 1990s and 2000s, at a time when replacement was required². To address this issue, we consider that regulators could develop benchmarks that provide a ‘ballpark’ estimate of sustainable levels of replacement capital expenditure taking into account age profiles, particularly the extent of assets approaching end of life. We consider that a relevant benchmark would consider:

- Modern day costs of constructing the network. As noted by the Commission, the RAB value is a very poor comparator of network value, as it is a financial estimate of the depreciated stock of assets.
- The life expectancy of assets on the network. This will provide an understanding of how many years it would take to replace the assets on the network. In turn, this would provide an estimate of annual replacement capital expenditure required to sustain a network, assuming a smoothed investment cycle.
- The age profile of assets on the network. This would account for the lumpiness of the investment cycle. Networks which have a large proportion of assets that exceed their economic life would require a higher allowance than the smoothed estimate.

We consider that this benchmark would have alerted regulators to unsustainable replacement levels in the 1990s and 2000s. For instance, Ausgrid’s replacement allowance in the 1999-2004 period was \$100 million per annum when the modern day costs of replacing the assets was approaching \$30 billion. At that rate of replacement, it would have taken 300 years to replace the network, when the standard life of a network is closer to 40 years or less.

The role of the AER in benchmarking

We are supportive of the AER developing its expertise in benchmarking over the longer term provided it is undertaken with due consideration of the practical implications and compliance costs on both the AER and distributors. In this respect, we note that the Commission has concluded that the AER should not use aggregate benchmarking as the exclusive basis for making a determination in any of the next rounds of regulatory determinations. This is reflected in the Commission’s draft recommendation 8.5.

² Attachment A of Ausgrid’s submission to the AEMC’s directions paper on the Rule change for the Economic Regulation of Network Service Providers proposal provides a comprehensive quantitative analysis of the drivers of price change. From a theoretical viewpoint, the analysis shows that a price shock is a function of the speed of change in the ratio of RAB to modern day replacement costs.

However, the rest of recommendation 8.5 is ambiguous. It implies that if benchmarking processes improve over the next rounds of regulatory determinations it could be used for this purpose. This contradicts the analysis and conclusions in the rest of the report and underestimates the substantial effort required to ensure that benchmarking is fit for purpose. For this reason we consider that this part of the recommendation should be removed.

Draft recommendation 8.3 requires the AER to undertake comparisons between distributor performances within metropolitan areas. In this respect it is important to recognise that Sydney has been recognised as Australia's global city according to the Global Power City Index 2010³. Global cities face unique sets of cost drivers that may impact on the comparison with other Australian metropolitan areas.

A number of draft recommendations (8.7, 8.10, 8.11) deal with the release of benchmarking input data and benchmarking results. We would note that the release of such information should be accompanied with appropriate explanations and commentary to avoid the data being taken out of context. This is particularly important where input data, such as data collected through the AER's regulatory information notices, is released publicly. To that end, we support the continuation of the current arrangements in the NEL and NER that specify that before the release of a network service provider performance report, distributors be given the opportunity to comment on material of a factual nature to be included in the report.

More generally, the AER's role in benchmarking is likely to be more credible if the regulator is given independence from the ACCC and allowed to operate as a standalone independent energy regulator. As noted by the Commission, this would be consistent with the original institutional arrangements proposed for the NEM. The continued co-location in the ACCC (a multi-sectoral body that has competition and consumer protection functions) may present the risk of the regulator being influenced by political/public pressure, particularly in an environment of rising prices.

Attachment B details concerns regarding the use of ill-conceived benchmarking and provides a conclusion on the critique of two international studies conducted by Mountain (2011) as referenced by the Commission in the Draft Report.

Cost Reflective Price Signals

Regulatory and market frameworks need to be developed that enable efficient demand-side and supply-side responses to the growth in energy demand. This topic has been the subject of an extensive market review by the AEMC with final recommendations to be made to the SCER in November 2012. As identified in Stage 3 of the AEMC's Demand Side Participation (DSP) Review, *Power of Choice*, phasing in cost reflective network pricing is one component of a broader solution to facilitate more DSP in the market.

As indicated above, well designed, efficient pricing strategies can send a signal to energy consumers about the true cost of consuming energy at a particular time, and when customers have feedback available about their energy use, they are better placed to make informed decisions about their energy consumption patterns. Reform of pricing structures is challenging and also relies on the roll-out of supporting technology, such as interval meters or smart meters. There are a number of transitional steps available in providing cost-reflective price signals to consumers such as providing more detailed energy education to consumers.

As identified in the Federal Government *Energy White Paper*, a well-recognised barrier that inhibits energy productivity (which was also comprehensively identified in the Prime Minister's

³ Institute for Urban Strategies, the Mori Memorial Foundation, [Global Power City Index 2010](#).

Task Group on Energy Efficiency report) is the lack of consumer information and skills as well as uninformed decision-making by energy consumers. Providing customers with information and skills about energy use can assist consumers making more informed energy decisions. An energy literacy program across all consumers can assist in addressing the current challenge posed by rising energy costs and the broader challenge of improving energy productivity.

Errors or Inconsistencies

The NSW DNSPs are concerned with the accuracy of some statements in the Commission's Draft Report or their use to support some conclusions.

Five year employment guarantee

"In NSW, Ausgrid is required to provide a five-year employment guarantee to award staff or separate senior contract staff in accordance with their contracts, a requirement that came into play following the separation of the retail arm from Ausgrid"⁴ - Page 20, the Commission's Draft Report.

This is a specific outcome of the government sale of the EnergyAustralia retail business and does not apply to the majority of Ausgrid employees. Contract staff were not provided with this employment guarantee only award based retail staff.

Bill impact to meet network peak demand

"Some 25 per cent of retail electricity bills are required to meet around 40 hours of critical peak demand each year". - Page 2, the Commission's Draft Report.

The Commission's draft report references the source of this data as the Australian Government *National Energy Savings Initiative Issues Paper* – December 2011 published by Department of Resources, Energy and Tourism and the Department of Climate Change and Energy Efficiency, where it was stated:

"It is estimated that 25 per cent of retail electricity costs are derived from peak events that occur over a period of less than 40 hours per year..."

There is no data provided in the *National Energy Savings Initiative Issues Paper* to support the basis for this figure, however it is possible that this statement is reflecting historic wholesale pool prices (e.g. those that were witnessed in the period from 2005 to 2008) rather than network peak demand. Recent wholesale prices have been very flat in comparison to the 2005 to 2008 period.

From a network infrastructure perspective, the cost of meeting peak demand is a more complex discussion and using the wholesale pool price may be misleading to customers of the value of shifting or reducing peak demand.

It should be noted, however; that the NSW Licence Conditions require that each business is required to supply firm capacity to meet demand for all but the highest 88 hours of demand per year (1% of time). This means that NSW Network businesses do not build network capacity to service peak demand that occurs on just the top 40 hours of each year (nor do they build capacity to meet demand for the following 48 highest peak hours).

It is also worth noting that across the NEM, network costs account for between approximately 30 per cent to 50 per cent of a customer's retail bill. To put the claim into context, and when

⁴ Ausgrid's Statement of Corporate Intent 2011/12, 19 December, page 7

examining Endeavour Energy's growth capital program, even if it were assumed that the entire \$1.1bn growth capital expenditure program for the 2009-14 Determination period could be avoided by controlling the top 40 hours of critical peak demand for each year of the Determination period, retail bills would only be impacted by approximately 3 per cent⁵.

While reducing energy consumption in order to achieve greenhouse gas and carbon reductions is an important policy goal, it is important not to confuse the impacts of network peak demand with generation-related impacts.

Costs and benefits of demand management

The Draft Report sets out the following with regard to the costs and benefits of demand management:

A number of studies have examined the benefits and costs of demand management (ESC 2002, 2004; CRA 2006; NERA 2008a, 2008b; EMCa 2008; CRA 2008a, 2008b; KPMG 2008; Deloitte 2011). By revisiting these studies and drawing on new information, particularly from the rollout of smart meters in Victoria, the Commission has sought to gauge the prospective gains from the further adoption of demand management in Australia. As an input into the assessments of specific initiatives in later chapters, it also aims to:

- *identify information that could be pivotal in approving specific demand management projects*
- *highlight gaps in current knowledge of relevant costs and benefits*
- *draw out implications for the implementation path of the draft recommendations.*

To those ends, the Commission has compiled indicative estimates for a number of demand management initiatives (which are available on request). – Page 333, Productivity Commission's Draft Report

We request a copy of the information developed and offered by the Commission to develop the indicative estimates for the demand management initiatives. Once we have had an opportunity to review the calculations we may provide some additional commentary to the Commission.

The focus of many of the Commission's recommendations is on reducing network peak demand, which we agree is important in ensuring customers face the true costs imposed on the network when making consumption decisions. However future network prices are largely driven by the need to replace ageing assets and meet residential and commercial growth, rather than meeting peak demand growth.

We note that the Commission has not sufficiently addressed the costs and benefits of direct load control scenarios. We consider that direct load control has a key role to play in managing peak demand on electricity distribution networks and suggest that this matter form a more fulsome element of the Commission's Final Report. We seek more information from the Commission on the information contained in Table 9.4 in the Draft Report regarding the relative merits of direct load control, as reproduced below:

⁵ This analysis assumes that the revised price path follows a similar profile to that of the AER's 2009 Determination

Table 9.4 Relative merits of stylised demand management approaches
Benefit-cost ratios, indicative estimates^a

<i>Scenario</i>	<i>Low</i>	<i>Mid-point</i>	<i>High</i>
National smart meter rollout with critical peak demand management	0.5	1.0	2.6
National smart meter rollout with time of use pricing	0.3	0.6	1.1
Direct load control in the absence of smart meters	0.1	0.8	6.3
Limited smart meter rollout with critical peak demand management	0.8	2.1	5.8
Limited smart meter rollout with critical peak demand management and one year deferral of distribution network infrastructure	1.0	2.8	7.6

^a A benefit-cost ratio less than one implies that the stream of discounted costs was more than the stream of discounted benefits. The low case for most scenarios is below one, indicating a risk of a net cost. If a scenario has higher benefit-cost ratios in all cases, it is more likely that the scenario would be of net benefit. However, a more risky project may be warranted if benefits can be obtained across a larger proportion of peak consumption — such a scenario is more likely to warrant additional efforts to mitigate the potential for downside risks

Source: Commission estimates.

We seek additional information as to the benefit-cost ratios in the table above, and in particular the analysis supporting the direct load control scenarios which appear to underestimate the potential benefits for the low and mid-point scenarios. We would be keen to assist the Commission in exploring direct load control in the lead up to the Final Report.

Governance

Establishment of consumer body

As indicated above, the NSW DNSPs support the establishment of a broadly representative consumer body and note that this may assist businesses in meeting a number of changes put forward by the AEMC in its *National Electricity Amendment Rule – Economic Regulation of Network Service Providers* to increase customer engagement and participation, including:

- Requiring a network business to indicate in its regulatory proposal the extent it has engaged with consumers;
- Requiring a network business to provide an overview paper;
- Requiring the AER to publish an issues paper to assist consumer representatives to focus on the key issues; and
- Requiring the AER, when setting capex and opex allowances, to take into account the extent to which a network business has engaged with consumers.

Expedited Rule making process

The NSW DNSPs do not support recommendation 21.4 whereby the NEL should be amended to expedite the making of rules arising from any appropriately conducted independent review relevant to the National Electricity Market and that are agreed by the Standing Council on Energy and Resources (SCER).

Expediting rules at expense of appropriate consultation with all stakeholders can lead to inappropriate outcomes and should be largely avoided.

The proposal that the South Australian (SA) Minister be given the power to make the rules with the agreement of the other SCER Ministers, avoiding the AEMC process altogether, is not supported. To date the SA Minister has been given very limited powers by the Parliaments of the participating jurisdictions to make rules which support legislative changes. These rules have generally been developed in consultation with interested stakeholders and sound regulatory practice suggests that any rule making power which would reduce the accountability and involvement of the AEMC as the expert rule maker and the opportunity for all interested stakeholders to be involved in the rule making process should be avoided.

In terms of the “fast track” process, the NSW DNSPs consider that the Commission’s proposal is problematic and misconceived. The fast track provisions already exist where there has been consultation by an electricity market body (the AER, AEMO or the Reliability Panel) on a proposed change to the rules which would justify bypassing the initial consultation on the proposal and moving straight to draft determination.

The NSW DNSPs note and endorse the key messages contained in the Energy Networks Association (ENA) dated 23 November 2012 regarding the Draft Report. We note that neither this submission nor the ENA response have addressed Interconnectors or transmission issues as we understand these will be addressed by a submission by Grid Australia on behalf of the National Electricity Market (NEM) transmission businesses.

Conclusion

The NSW DNSPs are committed to improving productivity and placing downward pressure on electricity prices. To this end, and to demonstrate its commitment to ongoing productivity improvements, Ausgrid, Endeavour Energy and Essential Energy are each targeting significant cost savings as a result of the NSW Government’s Network Reform Program and distribution network price movements close to the rate of inflation for the six year period starting 1 July 2014.

Yours sincerely,

Vince Graham
Interim Chief Executive Officer

Attachments:

- A. Detailed Responses to Questions from the Draft Report*
- B. Conclusions from the Critique of Mountain (2011)*