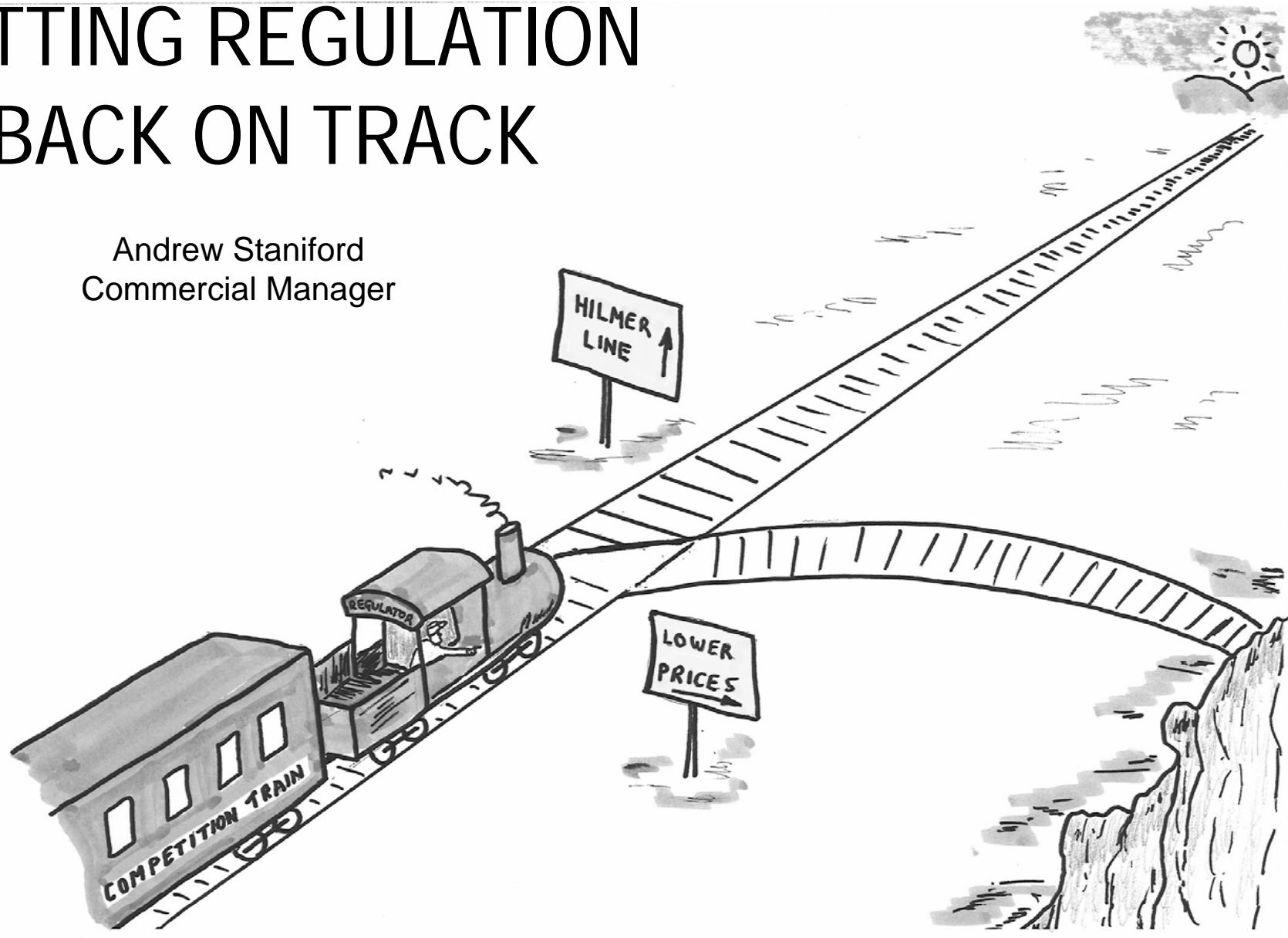


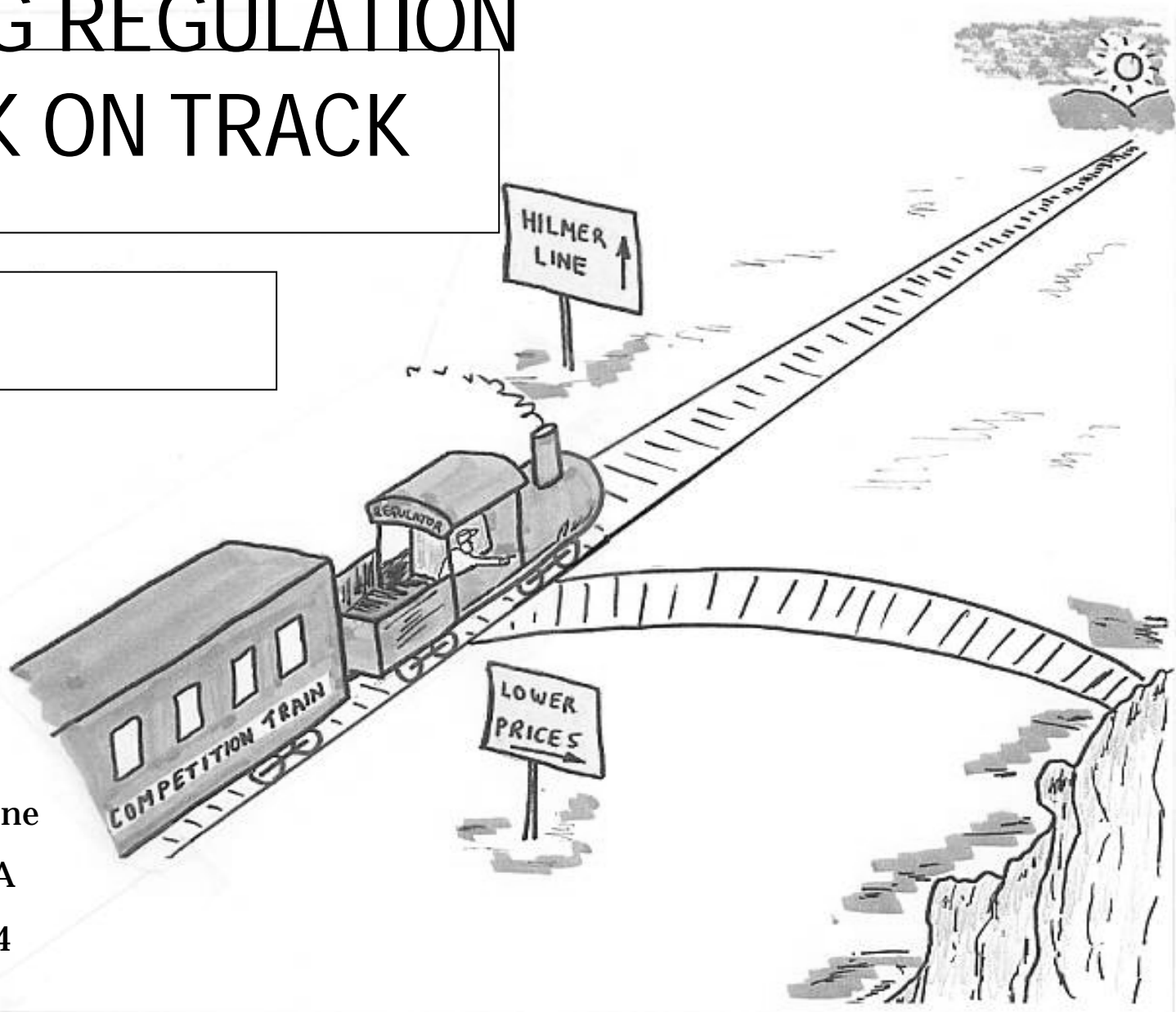
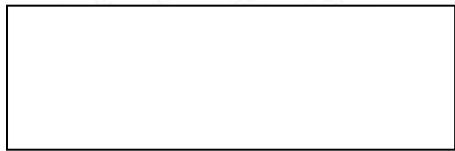
GETTING REGULATION BACK ON TRACK

Andrew Staniford
Commercial Manager



Sept 2003

GETTING REGULATION BACK ON TRACK



Ralph Mignone
ENVESTRA
March 2004



Regime - key deficiency

Cost of service approach

- costly & time consuming
- high regulatory risk
- regulator focus on short term price reductions
- heavy-handed – information requirements, reporting



Draft Report - key outcomes

- price monitoring option – cost effective, light handed, low regulatory risk
- coverage test
- Code objects clause
- access pricing principles – change to 8.1
- greenfields projects mechanisms
- full merit review



Key Outcomes – Covered Pipelines with Access Arrangements

- Code objects clause
- access pricing principles
- full merit review

Are key deficiencies addressed?

- costly & time consuming
- high regulatory risk
- regulator focus on short term prices
- heavy-handed approach to information, reporting



More work required

ACCC (18/9/03), re objects clause clarification:

“I just don’t think it would make a big difference, or make any difference at all to what we do or the processes that we are responsible for.”

CHANGES ARE REQUIRED AT ‘COAL FACE’



Need to take into account outcomes of recent appeals,

eg. change from “propose-propose” model to “propose-respond” model
(GasNet decision)



More work required

Will current model continue?

Distributor



WACC report



Demand forecasting



Capex report

Regulator



WACC report



Demand forecasting



Capex report



More work required

Separation of regulator and licensor

- conflict of roles – consumer protection
- light-handed Code regime may be overridden by licensing powers
- may not be addressed by move to national regulator
- Licensing authority – codes, guidelines (eg distribution and metering codes)

Incentive regulation

- Cost of service – efficiency gains not shared fairly

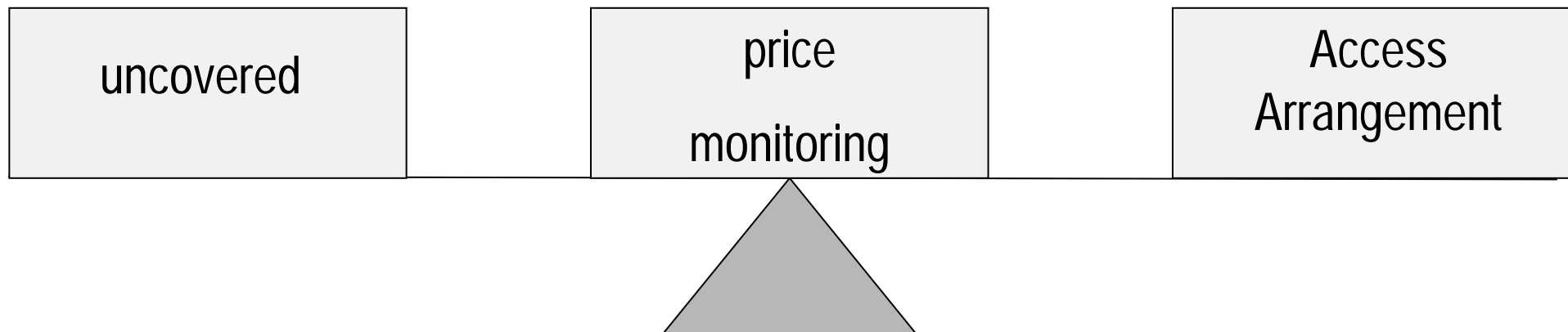


Restore Balance

1. Recognise regulation not always required – costs can exceed benefits
2. Move to heavy-handed regulation only where required

PC: *"The Gas Access Regime is ...at the more intrusive end of regulation"*

Default for distribution networks





Professor Littlechild:

“Customers often have a choice whether or not to use gas ...In such circumstances, the need for regulation is substantially reduced”

PC Draft Finding 4.5:

“Generally, regulation involving access arrangements with a reference tariff should be considered only where service providers have substantial market power”

Networks do not have “substantial market power” - significant marketing required by networks

- Envestra networking marketing: > \$8m /yr (approved by regulators)



Networks do not have “substantial market power”

- transmission pipelines – usually rely on large foundation customers, e.g generators, large processing plants which must use gas
- networks operate in an energy market
- networks – most income generated by domestic customers
 - strong competition with electricity in all areas of market (heating, cooking, hot water)
 - Increasing competition with alternative energy policies, ie solar



Administrative Issues

Draft Recom 11.1 – backdating of reference tariffs

- fraught with difficulty & risk

Draft Recom 11.3 – removal of further final decision

- not practical



ACCC submission

ACIL Tasman study shows that:

“access regulation is likely to increase Australia’s GDP by between \$2.2b and \$11b”

Fundamentally flawed:

“This substantial benefit arises due to lower prices which stimulate greater usage of electricity and gas”



ACCC submission

On price monitoring:

“the removal of a right of access at reasonable prices could substantially harm potential small entrants that do not have effective bargaining power. Particularly, as no enforceable right of access exists under the proposed price monitoring alternative.”



Implementation

Upcoming Envestra Access Arrangements:

- SA & Qld – revisions due 1 Oct 2005
- Work now commencing



Summary

- well documented Draft Report
- many positive recommendations for more efficient regime, notably price monitoring
- price monitoring should be the default
- need to incorporate recent appeal outcomes
- need to address deficiencies in cost of service
- need to ensure timely implementation for maximum benefits to be realised