

9 May 2007

Dr John Tamblyn
Chair
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

Dear Mr Tamblyn

Rule change proposal: Incidental transmission services undertaken by DNSPs

The Energy Networks Association (ENA) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation on EnergyAustralia's (EA) proposed rule change – Incidental transmission services undertaken by DNSPs and the accompanying PB Associates independent review report.

Under the current Rules, EA is required to participate in two separate regulatory determinations for its transmission and distribution networks, even though EA's transmission network is incidental to its distribution network and effectively operates as a single network. This has resulted in an inefficient and duplicative regulatory process which has had costly resource implications for EA, any other DNSPs that have comparable arrangements or are likely to in the future, the AER and other stakeholders.

EA proposes that a single determination process be used for both its distribution and transmission networks. ENA supports EA's proposal, the proposal is consistent with the National Electricity Market Objective and will benefit all stakeholders.

Consistency of proposal with the National Electricity Market Objective

ENA considers the proposed Rule will likely contribute to the National Electricity Market Objective. Some of the significant reasons for why this will occur are:

- The Rule proposal will increase long-term certainty and transparency in how assets owned by distribution business will be treated;
- A substantial reduction in the cost of regulatory compliance for EA, the AER and any other stakeholders who participate within the regulatory determination process which will have positive flow-on effects for customers;
- The Rule change proposal can in the future potentially apply to all distribution businesses (except within Queensland) and hence would result in similar reductions in unnecessary regulatory obligations and costs for these businesses, the AER and other stakeholders;
- The Rule proposal will eliminate any inconsistencies in connection with the regulation of assets that assist both the distribution network and the transmission network; and
- The Rule proposal concentrates on the actual primary service that is provided, instead of pigeon-holing assets by technical definition which results in an inefficient regulatory process.

The above benefits will result in promoting efficient investment in electricity services that are necessary and incidental to the supply of electricity to consumers.

Findings of the PB Associates independent review report

PB Associates (PB) have prepared an independent review report examining the benefits of having a single regulatory determination in contrast to any potential costs arising from the Rule change. As part of its review, PB has provided solutions to any potential costs that will result in any costs being negligible, PB has stated that:

- To avoid customer price disturbance, EA should continue to apply current principles of revenue allocation, this will result in no impact on customer prices or on the financial position of EA; and
- Any potential impact of applying a distribution WACC on EA's transmission assets is likely to be insignificant, and where impact does occur, it should be corrected.

ENA urges the AEMC to adopt EA's proposed rule-change proposal, the benefits to the National Electricity Market Objective are significant, and any potential associated costs can easily be corrected. If you would like any further information on the above matters, please contact me on (02) 6272 1555.

Yours sincerely



Andrew Blyth
Chief Executive Officer