

Ref: JC:JC:C771424

22 August 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Dr Tamblyn

National Electricity Amendment (Total Factor Productivity for Distribution Network Regulation) Rule 2008

Country Energy appreciates the opportunity to respond to the Rule amendment proposed by the Minister for Energy and Resources (Victoria) in relation to the Rules allowing the use of Total Factor Productivity (TFP) as an alternative economic regulation methodology to be applied by the Australian Energy Regulator (AER) in approving, or amending, determinations for distribution network service providers (DNSPs).

Country Energy supports the development of new methods that are an improvement on existing approaches and easily understood by users. The current building block approach used in economic regulation is well established and understood.

Country Energy believes that any change to the recently finalised Rules for the economic regulation of DNSPs by regulators needs to be carefully considered and assessed. Country Energy has reservations as to the need to provide the alternative TFP methodology control setting method when to date this approach remains untested within the Australian energy landscape. The Rule change proposal also lacks details or discussion on TFP experiences in other countries.

Country Energy believes that the recommendation of the Ministerial Council on Energy (MCE) Expert Panel on Energy Access Pricing¹ that the MCE direct the AEMC to undertake a full review of the TFP methodology should be adopted in preference to this Rule change proposal. This will allow comprehensive and rigorous analysis of all facets of the TFP methodology, not just those included in the Rule change proposal. The TFP issue was widely debated as part of the Expert Panel review, and Country Energy believes the conclusions from this review should be adhered to.

Country Energy's understanding is that the TFP approach does not adequately recognise or account for particular stages of a DNSPs investment cycle. The Expert Panel also noted that in order to achieve the greatest benefit from TFP the industry needs to be in a relatively steady state. With NSW DNSPs embarking on a significant investment and renewal program in the upcoming years, TFP will not be suitable for use by such businesses.

¹ MCE Expert Panel on Energy Access Pricing, April 2006.

Country Energy would be pleased to discuss this matter further. Should you require further information or clarification please feel free to contact Jason Cooke on 02 6338 3685.

Yours sincerely

Natalie Lindsay
General Manager Regulatory Affairs