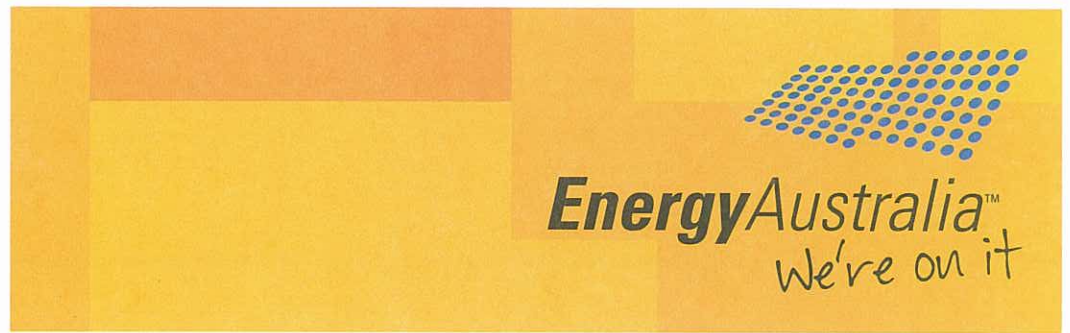


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12 September 2008

Mr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Tamblyn

AEMC Draft Determination – Regulatory Test Threshold

EnergyAustralia welcomes the opportunity to comment on the AEMC's draft determination in relation to the proposed changes to regulatory test thresholds.

EnergyAustralia's principal submission is that the Commission should make a more preferred rule to that proposed by GridAustralia and apply the changes to the regulatory test thresholds to distribution. The reasons for this are twofold.

Firstly, the ongoing increases in the costs of electricity network inputs means that the increases in regulatory test thresholds are long overdue. The input costs of distribution investments are the same as those of transmission investments. Further information demonstrating the cost drivers can be found in the Competition Economics Group report for TransGrid, EnergyAustralia, Integral Energy and Country Energy (copy attached).¹

In addition, setting different thresholds for transmission, without aligning the thresholds for distribution, will create a disjoint between the regulatory test for distribution and transmission. This will adversely affect augmentations where possible options include alternative transmission and distribution investments with a capital value between \$10m and \$20m . This is explained in more detail in the submission.

EnergyAustralia is also concerned about the proposed definition of replacement transmission investments. It assumes that investments are either replacement or augmentation. In a practical sense investments often incorporate both replacement and augmentation works. We request this be clarified in the final determination.

Please find EnergyAustralia's submission on these and other issues attached. We would be happy to provide further details about the quantity and cost of undertaking the regulatory test, from a distribution

¹ CEG, Escalation factors affecting expenditure forecasts, July 2008.

perspective, if it would be useful for the Commission.

Please do not hesitate to contact me on (02) 9269 2611 or Catherine O'Neill on (02) 9269 4171 for enquiries in relation to this matter.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Trevor Armstrong', with a long horizontal stroke extending to the right.

Trevor Armstrong
Executive General Manager – System Planning & Regulation (acting)