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

Dear Dr Tamblyn

Economic regulation of transmission services provided by distributors

Thank you for the opportunity to provide a further submission on EnergyAustralia's Rule change proposal entitled "incidental transmission services undertaken by DNSPs (Draft Rule proposal)". The issues raised by EnergyAustralia concern the revenue and pricing mechanisms that should be applied where a DNSP owns and operates transmission assets as part of its distribution network business.

Revenue

Integral Energy notes that the National Electricity Rules have been amended since EnergyAustralia lodged its Draft Rule proposal. Specifically, the Transitional Rules for the economic regulation of distribution services provided by NSW and ACT DNSPs during the regulatory period 2009-2014 came in to effect on 1 January 2008. Clause 6.1.5 of the Transitional Rules deems that, for those service providers for that period, each part of the network that would otherwise be part of its transmission network is deemed to be part of its distribution network for revenue determination purposes.

Integral Energy considers that a change to the Rules to make the deeming process permanent beyond 2014 would address the first issue raised in EnergyAustralia's Draft Rule proposal, namely, that it is desirable that there be a single regulatory regime and revenue determination process in relation to a transmission network and a distribution network owned and operated by a DNSP. Doing so has the potential to significantly increase process efficiency and reduce costs to both the DNSP and the Australian Energy Regulator (AER).

Pricing

In terms of pricing, clause 6.1.6 of the Transitional Rules gives effect to the policy intent that:

- where transmission assets are revenue regulated on the same basis as a distribution assets; and

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- those transmission assets comprise a sufficient proportion of the DNSP's regulated business such that the application of the distribution pricing methodology set out in the Rules would lead to a materially different revenue outcome than if the transmission pricing methodology were applied,

then the transmission pricing rules should be used instead. Currently, EnergyAustralia has a large number of transmission assets and this is reflected in the specific reference to that DNSP in clause 6.1.6.

Integral Energy submits that it would be appropriate to carry that clause into the general Chapter 6 Rules on the basis that its application is extended to other DNSPs. This recognises that, at some point in the future, other DNSPs may own and operate assets that are technically categorised as transmission assets. Integral Energy would be happy to participate in further discussions with the Commission regarding the changes to the drafting of clause 6.1.6 that would be required including the nature of the threshold test as to what constituted a sufficient proportion of the DNSP's regulated business.

National electricity objective

Integral Energy submits that the combined effect of the changes proposed in this letter would:

- enhance clarity and reduce the regulatory burden by applying a single revenue regulation framework and process for both types of assets; and
- enhance clarity and potentially improve pricing efficiency by allowing transmission assets to be priced to customers according to the transmission pricing methodology.

Integral Energy submits that these changes would, or would be likely to, contribute to the national electricity objective by leading to more efficient investment in and use of those network services for the benefit of investors, consumers and market participants.

Should you wish to discuss any aspect of this submission, please contact Anthony Englund on (02) 9853 6511.

Yours faithfully



Daniel Lucas
Acting Chief Executive Officer