

SUBMISSION

TO THE

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

OF NEW SOUTH WALES

REGARDING

Electricity Industry Consultation Group – Guidelines for Implementing
the Recommendations of the Capital Contributions Working Group
Final Report

This submission has been prepared by the Advance Energy Rural Advisory Group.

The Rural Advisory Group represents approximately 30,000 rural consumers, approximately one quarter of the total number of consumers within the franchise area.

This group was constituted by Advance Energy to advise of policy matters and specific issues affecting rural consumers in Advance Energy's franchise region. Formal meetings with senior management of Advance Energy are held quarterly. Minutes of these meetings are maintained. Members are drawn from rural areas of Advance Energy's franchise area covering a large part of central and western NSW.

Members are:	Mr John Bestwick	(Raglan)
	Mr Murray Feddersen	(Narromine)
	Mr Ray Haigh	(Narromine)
	Mr David Hughes	(Peak Hill)
	Mrs Pat Le Lievre	(Cobar)
	Mrs Joyce Pascoe	(Millthorpe)

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Issues

The Rural Advisory Group has a number of concerns regarding this report and its use as the base document for further consultation.

Whilst recognising and supporting the need for the financial viability of the electricity industry in New South Wales, we believe that this must be achieved within the environment of maintained viability of our regional and rural areas.

The report does not appear to have understood or fully addressed the impact of the proposals on those affected by the changes in Regional and Rural areas.

Specific concerns of the Rural Advisory Group are:

1) Consultation Process

The Capital Contributions Implementation Working Group (CCIWG) that produced this report does not appear to have adequate representation from those in rural areas most affected by implementation of the recommendations.

We understand that public consultation has been limited to a forum in Sydney far removed from regional centres.

The rural customers who were on the committee appear to represent highly specific interests and it cannot be argued that they were aware of, or comprehensively represented, the views of the vast majority of rural and regional customers.

2) Legislative Compliance

Part 3 of the Energy Services Corporations Act 1995 identifies the principle objectives of energy distributors.

In particular, clause 8 (1) (c) requires energy distributors “to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.”

Further clause 8 (2) stipulates that the above objective has equal importance to the other clauses defining the principal objectives of energy distributors including those relating to financial performance and social responsibility.

We could find no clear evidence of compliance with, or even consideration of clause 8 (1) (c), Regional Development considerations, other than the response to Capital Contributions Working Group (CCWG) Final Report Recommendation 6.

In the response, the Group recommends establishing an Agency to assess the merits of funding assistance, etc. This response is severely deficient, as it does not specifically address Regional Development issues.

In fact, it appears to be an attempt to opt out of distributors’ legislated responsibilities by the establishment of yet a further agency with its associated costs and compliance requirements.

Section 8 (1) (a) (iii) of the Act also highlights the social responsibility that must be exhibited by Energy Distributors.

We are concerned that the proposals in the report, if implemented, may exacerbate unemployment in regional and rural areas leading to increased social problems. This is a likely result of establishing “pricing signals” that attempt to direct future development to suitable locations. The report fails to comment on this issue.

There has been no analysis of the medium and long term impact of the proposals and particularly of the shaping of future State Development by Industry Pricing Signals.

3) Regional Development Impact

The Group does not appear to have identified the potential for changing the nature of future regional development in New South Wales by adopting revised “pricing signals” that recognise the economic efficiency (to the electricity distributors) of maximising development near parts of the existing electricity grid that have adequate capacity.

It is significant that the Group does not appear to have any member with specific Regional Development expertise and limiting the Public Forum to Sydney severely restricted the opportunity for Regional and Rural input. We are not aware of extensive advertising of this matter through Regional media or attempts to secure input from appropriate Regional or Rural representative organisations.

Whilst not rejecting the distributors’ economic efficiency argument, we believe that it should be considered in the overall regional development context (as we believe the Act requires) and not in the narrowly defined terms of efficiency to the distributors.

There is clearly potential for this policy to have a negative impact on the economic viability of regional and rural communities thus leading to a declining population base, further withdrawal of services and a huge negative social impact.

We note that the Prime Minister in a radio interview on the 31st January this year commented on “basic facilities that rural communities have a perfect right to expect”. He went on to say “I believe very strongly that these basic services are an entitlement for people living in the bush”.

We believe that a reliable electricity supply is a basic service and that it should not be priced out of the reach of the people who need it. This includes the many small businesses that provide the services necessary to sustain rural enterprises and the employment that they provide.

We are very concerned about the small businesses or farming enterprises who want to expand or upgrade their services. This policy has the potential to cause enormous negative impact to these organisations. The real strength of our rural and regional areas comes from the thousands of operators in this category, not just the few high profile mines and other large customers.

4) Standard of Living

The availability of a reliable electricity supply is one of the indicators of a community’s standard of living. We are concerned that the recommendations in this report, if implemented, will effectively minimise or even halt expansion and upgrading of the rural supply network leading to deterioration over time.

A stated recommendation is to send economic signals to encourage development at points convenient to the distributors. Invariably this will be adjacent to existing major centres to the detriment of rural based commercial operations.

This will, over time, cause a fundamental shift in the relationship of the standard of living of rural dwellers when compared to their city counterparts and is contrary to one of the stated goals of fairness to all consumers.

5) Validity of Assumptions

A number of propositions appear to have been accepted without question or sufficiently rigorous scrutiny.

For example, the Implementation Working Group's response appears to assume that cross subsidies are unacceptable in any form.

We challenge this assumption and suggest that some level of cross subsidy would be acceptable to, and even preferred by, many consumers.

There is evidence that many consumers place a value on and are therefore prepared to make a financial contribution towards what may be regarded as national assets. We believe that rural and regional Australia is a national asset and that view has been shared by recent statements at both State and Federal Government levels.

In support of this premise, we point to considerable work that has been done in the area of funding natural resources such as National Parks and Wetlands. The Land and Water Resources Research and Development Corporation has funded research on the subject of "choice modelling" that may allow parallels to be drawn to this report.

That research found that urban dwellers are prepared to pay a finite premium for the good of the broader community and will accept some increases in charges to improve the quality of our environment.

The electricity industry itself has demonstrated that some consumers are prepared to pay a premium for "green power". This area should be explored more thoroughly to confirm the validity or otherwise of the assumption which dismisses cross subsidies before the report is adopted.

Another figure that is not adequately justified is the six-year time span during which reimbursement may occur. (Refer Section 7). This figure appears to have been adopted because it has been used in the past and because keeping records for any longer period is arguably too hard.

This argument cannot be accepted given the requirements of the State Records Act and the efficiency of modern electronic record keeping systems.

Our view is that this time span is a barrier to regional development as there is already a considerable body of evidence in rural areas that developments have been delayed or deferred until the six year period has expired.

The report effectively is creating a situation where initial development is discouraged because the developer has to bear 100% of the cost of infrastructure extension. If development does occur, then subsidiary developments are effectively deferred for a six year period.

As these infrastructure assets have a life expectancy of between 50 and 100 years, we see no reason why the relevant period should not be at least 50 years. Alternately, infrastructure extensions should be totally publicly funded and be publicly owned from the start. This will make a major positive contribution to the regional development environment, creating jobs and opportunities.

6) Interaction with other Regional Development Authorities

By changing pricing mechanisms to establish pricing signals (Section 3) to encourage customers to establish at locations where it suits the distributors, the decision making environment for regional development will be changed.

Electricity supply forms part of the States' essential infrastructure along with roads, gas supply, railway and telecommunications.

Since the first settlement at Sydney Cove, infrastructure has been constructed to support development.

In a major shift in development strategy for NSW the CCIWG, with minimal consultation, appears to be reversing this policy and determining that development should be limited by existing infrastructure.

This will impact the enormous amount of regional development work that is being done at Federal, State and Local Government level yet there is no evidence of consideration of a consultation process or to ensure a coordinated regional development strategy.

7) Funding Assistance (Section 8)

Even the need to make application for funding assistance and the uncertainty that will be generated together with the cost of preparing a viable submission will act as a disincentive to regional and rural development.

We submit that standard charges should be established to provide an environment where individuals and businesses can plan their growth in an atmosphere of certainty.

Finally, we note that the CCIWG acknowledges that implementation of the proposed guidelines will introduce administrative requirements for distributors and additional complexity for customers yet it has failed to quantify these or demonstrate how the benefits of the proposals will outweigh these additional costs.

The CCIWG must provide this information to facilitate an informed decision on their recommendations.

Summary

In summary, the Advance Energy Rural Advisory Group submits that the report of the Electricity Industry Consultation Group is not a suitable document to use as the basis of further public scrutiny and consultation.

The document does not adequately address the responsibility of distributors as defined in the State Owned Corporation Act 1989 and has been prepared without reference to many of the people who will be affected by it.

Use of the report in its present form will unfairly direct and limit the debate towards the agenda of the CCIWG thus disadvantaging Rural and Regional development.

The report should be developed more fully to address these deficiencies before further consideration takes place.

IPART is requested to consider our comments and ensure that appropriate action is taken to adequately address the Regional Development issues that we have raised and provide some input for the 30,000 rural consumers in the Advance Energy franchise area as well as other Regional and Rural consumers throughout NSW.

Advance Energy Rural Advisory Group
30 April, 2000