

2 October, 2002

Dr Tom Parry
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290, QVB Post Office
Sydney NSW 1230

Dear Dr Parry

Consultation on Terms of Reference for IPART's Electricity Operating and Capital Expenditure Review

Thank you for the opportunity to provide comment on IPART's draft terms of reference for the appointment of a consultant to undertake a review of our operating and capital expenditure as part of the 2004 network price review.

Our major concerns with the draft terms of reference are as follows:

1. It is questionable whether the size of the task can be adequately addressed in the time available. This especially applies to the requirement for the consultant to provide their own estimates of prudent capital and operating expenditure forecasts. There is considerable danger that, given the time constraints, only a cursory or high level estimate of expenditure forecasts will be performed. By definition, these forecasts cannot be as rigorous or accurate as those prepared by Integral. Integral is particularly concerned that arbitrary assumptions or rule of thumb estimates will be used and that these estimates will be a material input into the revenue determination.
2. The timing of the consultancy is such that Integral will still be in the process of firming up various strategies and options for consideration as part of the final price submissions due 10 April 2003. Our ability to cost these strategies and options in time for the management review is questionable. It is also difficult to understand how the consultants are going to prepare forecasts of capital and operating expenditures without fully understanding the network strategy that Integral is pursuing. What Integral wants to avoid at all costs is that our network strategy will be driven by a consultant's forecasts based on a four week review.
3. The forward capital expenditure forecasts for network expansion are to be assessed to determine whether Integral has considered non-network alternatives (bottom of page 2 of the draft invitation to tender). This is impossible to ascertain, given that the Demand Management Code requires a market based approach to the development and implementation of Demand Side Management initiatives. The capital expenditure forecasts for projects

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several years away will not have been assessed by the market, and hence the viability or otherwise of Demand Management solutions is impossible to determine at this time.

4. The draft terms of reference state that past investment decisions are to be reviewed as being prudent at the time the decision was made, that is, without the benefit of hindsight. Integral strongly supports this approach and would urge IPART to reinforce this point with the successful tenderer.
5. The need to provide additional information to the consultant over and above that requested by IPART is also of concern. This consultancy will be conducted over the same time period as Integral is compiling the data to complete the information request from IPART and also to prepare its submission due on 10 April 2003. In order to ensure the integrity of the data and any modelling undertaken, it is important that there is alignment in the data requested and in the format of these requests. In order to simplify this process and the time and resource impact on DNSPs Integral would strongly urge IPART to work closely with the appointed consultant to remove or at the very least minimise any possible duplication of the information requirements.
6. There will also be a need for the consultant to consider the impact of recent legislative changes with respect to network management plans, bushfire risk mitigation etc. The full cost impact of these requirements has not been identified at this stage and at best will be estimates only at the time of the consultant's review.
7. Integral would need to fully understand the benchmarking proposed by any consultant to ensure that the chosen benchmarks are appropriate and that any chosen benchmark partners will allow comparison of like with like. The use of data bases gathered by the consultant over a number of years would be of particular concern as there is little, if any, detail available to fully understand the comparability of these benchmarks and its appropriateness or not.
8. A review of the allocation of costs between the regulated and unregulated business already occurs on an annual basis as part of the year end audit of the regulatory accounts. Integral sees little value, if any, in revisiting past allocations that have been signed off by the auditor.

Given the tight timeframes envisaged for this consultancy and its likely impact on other work being undertaken as part of the 2004 review I would urge IPART and its consultant to adopt a fully consultative approach when dealing with Integral. This will ensure that deadlines can be debated and agreement reached so that both parties understand the requirements and can meet the final dates for the provision of information.

Should you have any questions in relation to these comments, please contact Integral Energy's Regulatory and Pricing Group via David Neville on 02 9853 6144 or Frank Nevill on 02 9853 6598.

Yours sincerely

Craig James
Acting Chief Executive Officer