

30 May 2002

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

Dear Dr Parry

Response to Draft Notice on Form of Regulation

Integral Energy welcomes the opportunity to comment on the proposed new economic regulation arrangements for the regulatory period commencing 1 July 2004. In particular, Integral supports the Tribunal's decision to move to a weighted average price cap (WAPC) arrangement. If appropriately implemented, Integral considers that the WAPC approach should deliver:

- Stable and cost reflective end-user prices; and
- Sustainable and commercial revenues for the network business.

While IPART's Draft Notice effectively sets out the proposed regulatory arrangements at the high level and the overall process for making submissions, Integral notes that a range of significant issues have only been flagged at this stage pending further consideration by the Tribunal. These matters include:

- A service quality incentive mechanism;
- A correction factor;
- A benefit sharing mechanism;
- A mechanism allowing for the pass through of inter-distributor transfers;
- A mechanism to encourage demand management initiatives;
- A mechanism for passing through other specified costs.
- Arrangements for dealing with forecasting.

The direction taken on these detailed matters will determine the overall effectiveness of the WAPC arrangement. In order to provide DNSPs with greater regulatory certainty prior to the 2004 Determination, Integral considers it essential that IPART works with the industry over the next few months to resolve these matters in a consultative and timely manner.

Integral also notes that the Draft Notice indicates that the Tribunal will include limits on price movements that will cover total network charges and may include limits on price movements on the components of total network charges (ie. distribution tariffs and transmission tariffs). As indicated in our earlier

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submissions, Integral restates its view that it is critical for the Tribunal to consider the likely impact of side constraints. In the current revenue cap arrangement, the side constraints and price actions under Rule 2001/3 (Unders and Overs Account) represent the form of price control and govern the ability of network owners to follow the revenue path dictated in the 1999 Determination.

As has been discussed with the Tribunal, the WAPC approach puts an additional amount of earnings risk on DNSPs if they cannot re-balance tariffs to be cost reflective. For this reason, the overall effectiveness of the WAPC approach will largely depend on the degree to which side constraints can be relaxed.

The Draft Notice briefly raises the issue of transitional arrangements. Integral's Form of Economic Regulation submission of 21 September 2001 (refer pages 12 and 13) outlined numerous transitional and implementation issues that we suggested would require consideration by 1 July 2002. While recognising that the Draft Notice may not be the appropriate forum for dealing with these issues, in the interests of providing greater regulatory certainty, Integral urges IPART to work with the industry and other stakeholders to provide clarity on these important matters.

Integral notes the process and indicative timetable for the 2004 review set out in the Draft Notice. In relation to the detail sought in the first written submissions and initial pricing proposal by October 2002, Integral believes an improved outcome could be achieved if this deadline for this information was delayed until the early part of 2003. This would enable the outcomes of the work currently underway on customer willingness to pay and other scenario modelling that Integral is undertaking to be incorporated into these submissions. However, we do not believe that this delay should preclude urgent progress in resolving the other matters noted in this letter.

Integral looks forward participating further in developing the form of regulation. Should you have any questions in relation to this submission, please contact Integral's Regulatory and Pricing Group via David Neville on 02 9853 6144 or Frank Nevill on 02 9853 6598.

Sincerely

Richard Powis
Chief Executive Officer