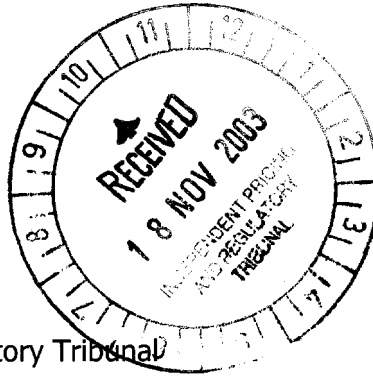


12 November 2003

Dr T Parry
Chairman
Independent Pricing and Regulatory Tribunal
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Dear Dr Parry ^{Tom}

Ring Fencing Waiver Request

Please find attached a request from Australian Inland (AI) seeking that the Tribunal waive certain provisions within the Distribution Ring Fencing Guidelines, developed as at 19 February 2003.

Australian Inland believes that it can achieve compliance with most Parts of the guidelines, however it will require a waiver from those Parts of the guidelines that become operative for AI from 1 July 2004. The attached document, Ring Fencing Waiver Request, provides more detailed information.

If you require any further information please do not hesitate to contact Ray Thorn on telephone 02 96242591 or Linda Heane on telephone 08 8082 5334.

Yours sincerely

Joe Flynn
Managing Director

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Ring Fencing Waiver Request

Prepared for: Independent Pricing and Regulatory Tribunal

Date: 7 November 2003

Prepared by: Ray Thorn

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File-REG-2395

Introduction

In response to the distribution Ring Fencing Guidelines issued by The Independent Pricing and Regulatory Tribunal in February 2003, Australian Inland (AI) is lodging this waiver request submission.

Australian Inland believes that it can achieve compliance with most Parts of the Distribution Ring Fencing Guidelines; however it will require a waiver from those Parts of the guidelines that become operative for AI from 1 July 2004.

Details of Australian Inlands compliance to the guidelines and the specific Parts requiring a waiver are included in the following sections of this submission.

Guidelines in Operation from 1 July 2003

The first operative part of the guidelines impacting on Australian Inland (AI) is **Part 3 Cost Allocation Requirements**.

The AI accounts structure allows for the correct allocation of costs and revenues for customer connections and public lighting services, which should ensure that AI fully complies with this part of the guidelines.

It will be necessary to revisit this compliance area when the 2004 Network Pricing Determination is finalised to check the final position on what is defined as prescribed and excluded services.

Guidelines to Become Operative from 1 January 2004

Australian Inland is working towards full compliance for those parts of the guidelines that become operative from 1 January 2004.

To achieve compliance with **Part 2 Access Requirements**, new internal processes are being prepared and some structural changes are planned to ensure that prescribed distribution services are able to be provided on fair and non-discriminatory terms to all providers of customer funded contestable works. These services include areas such as, inspection services, provision of maps and design information and authorisation of independent accredited service providers. Customers will be treated equally irrespective of who they select to undertake their contestable services work.

It should be noted that a comprehensive plan is being developed for AI to become an accredited service provider and to better facilitate the operation of independent Accredited Service Providers (ASP's) in the AI network service area. This plan will be progressively implemented in the period from April to July next year.

Compliance with **Part 2 Access to Information** is able to be readily achieved because of the structural separation of the Network Assets (asset management group) and the Network Services (service provision group) that has already been implemented. Provision of services and information to all accredited service providers such as, who to contact for particular processes, access to network maps and information, access to construction and design standards are already in place from the Network Assets group.

Some further work will be undertaken to locate all technical inspection services for contestable works within the Network Assets group, and to carry out local authorisation of independent accredited service providers.-

Compliance with **Part 4 Communication Requirements** will be achieved through the development and application of clear and concise processes, which ensure that all communications to customers about contestable services, is provided without directly favouring AI's contestable services operations,

Clause 4.1 Communicating with Customers, compliance will be achieved by ensuring that any advertising or promotion of the contestable functions of the Services group in undertaking customer funded contestable work, is a separate business expense of that part of the organisation.

Clause 4.2 Notifying Customers that they have Choice, compliance will be achieved by ensuring that where a customer is required to pay for a service connection or alteration and additions to the network, that the customer or their agent is made fully aware that the work is contestable. The customer or their agent will then be advised that competitive quotations can be obtained from AI as an accredited service provider or from other independent accredited service providers, and that a list of ASP's operating in the area can be obtained from the Ministry of Energy and Utilities (providing contact phone number).

Clause 4.3 Requirements Relating to Customer Support Services, compliance will be achieved through development and application of standard scripting and pro-forma responses for all forms of oral, written and electronic communication with customers, their agents and ASP's, relating to customer funded contestable works.

Compliance with **Part 5 Functional Separation Requirements** Clauses 5.1 and 5.3 will be achieved as follows.

Clause 5.1 Application only to Operational Staff is noted as not applicable to customer support services referred to in clause 4.3.

Clause 5.3 Information Separation, compliance is readily achievable through existing access protocols between each organisational group within AI. Shared information to all groups is only available for corporate information on a dedicated server. As previously mentioned structural changes to incorporate all technical inspections within the Network Assets group and all safety audits within the Human resources group will ensure that any information about individual accredited service providers will only be accessible to key personnel in Assets or Human Resources and access to such information will not be available to people within the Services group.

Guidelines to Become Operative from I July 2004

Compliance with **Part 5 Functional Separation requirements** Clauses 5.2 and 5.4 will not be feasible for Australian Inland as detailed below.

Clause 5.2 Physical Separation of Offices would be completely impractical and totally uneconomic for AI having regard to the vast geography of the network supply area. Across AI's service area there are eight depots situated some 100 to 300 km apart which service the entire operating, maintenance, capital expenditure works and customer funded contestable works. There are very low levels of new or altered customer works which could not support a separated function, and there is little or no competition. In most depot locations there are only one or maybe two crews who are multi skilled to undertake all normal construction, maintenance, fault and emergency work and customer connection work requests in their area.

Clause 5.4 DNSP Staff Separation would also be completely impractical and totally uneconomic for all of the same reasons as outlined above.

Guideline Provisions Subject to Waiver Request

As indicated in the above section Australian inland is submitting a Waiver Request from its compliance obligations under the guidelines for **Part 5 Functional Separation Requirements Clause 5.2 Physical Separation of Offices** and **Clause 5.4 DNSP Staff Separation**.

Australian Inland is submitting this waiver request in accordance with **Part 6 Adding to or Waiving the Guidelines**, in particular addressing the requirements listed in Clause 6.1 Waiver Request and Clause 6.3 Matters Which the Tribunal Must Consider.

In submitting this waiver request the following points are provided in support of AI's application.

- AI has eight works depot locations servicing the entire operational and maintenance requirements of the existing electricity network, and also undertaking network driven capex and customer funded (contestable) capex.
- The level of customer funded contestable work is extremely low-as the net increase in new customers across all of these depot locations is only approximately 100 per year.
- In the majority of these depot locations there are only one or possibly two crews who are multi skilled to undertake all normal work requests in their area.
- The vast geography of the AI area means that there is 100 to 300 km distance between depots.
- The above reasons make it impractical and totally uneconomic to have specialist groups working out of different or separated premises to isolate contestable type work from all other types of work.
- The waiver request would therefore be submitted on the following grounds:
 - Separation of staff depots and/or staff within depots based on the type of work that they are engaged in is totally impractical and unworkable. It would create inefficiencies and diminish existing and future opportunities for economies of scale.
 - The extremely small volume of the competitive type work would make separation of depots or staff unworkable and cost prohibitive.
 - The competitive accredited service provider market is currently non existent and is therefore unlikely to be affected by this waiver request.
 - This waiver request is the only practical solution for AI to address functional separation requirements as currently outlined in the Ring Fencing Guidelines.