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31 January 2008

Mr Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Buckley

**MATTERS RELEVANT TO DISTRIBUTION DETERMINATIONS FOR ACT AND NSW DNSPS
FOR 2009-2014 – PRELIMINARY POSITIONS**

We appreciate the opportunity to respond to the preliminary positions paper on matters relevant to distribution determinations for ACT and NSW DNSPs for 2009-2014 (the paper).

Country Energy looks forward to continuing to work with the Australian Energy Regulator (AER) in the development of the demand management incentive scheme, control mechanisms for alternative control services and the approach to determining materiality for possible pass through events, each discussed below.

Demand management incentive scheme

Country Energy supports the AER's proposal to continue the NSW D-factor scheme for the next regulatory period and welcomes the inclusion of the 'learn-by-doing' fund for broad based demand management projects – this is a significant and welcome development.

Under the transitional Chapter 6 rules, the AER must publish a demand management incentive scheme by 1 March 2008 if it is to apply to the NSW/ACT determinations. While Country Energy would support the continuation of the D-factor scheme and a supplementary learn-by-doing fund to satisfy this requirement, we believe that the specific framework, processes and parameters of a learn-by-doing fund would be better left to be decided upon as part of the AER's final determination, with the benefit of a DNSP's detailed submission on the extent of demand management opportunities.

Country Energy believes that the 1 March 2008 deadline may not allow the AER adequate time to be able to conduct full and open consultation with all stakeholders, and explore all possible options for the operation of the fund. Further, we note that a reasonable starting point for the learn-by-doing fund consultation could be the demand management scheme implemented by the Essential Services Commission of South Australia for ETSA Utilities.

Control mechanism for alternative control services

As noted by the AER, the transitional Chapter 6 rules foreshadow a lighter handed regulatory regime for alternative control services. Country Energy believes the simplest and most practical approach to achieve this is by verifying the efficiency of a schedule of fixed prices that is then rolled forward in each year of the regulatory period in accordance with an approved price path. From our reading of the paper, it appears the AER is suggesting an approach similar to that employed for standard control services through the use of a regulated asset base and building block calculations. Country Energy would therefore appreciate the opportunity to further discuss with the AER the precise details of how they envisage the control mechanism will work in practice.

Country Energy notes the comment in the paper that the price path escalator need not be consistent with the X-factor applied to standard control services. Country Energy agrees with this and would like to clarify that the intention expressed in our last submission was that the costs will be escalated by labour and material escalators used for standard control services, rather than the actual X-factor used in standard control services.

Guideline on determining materiality for pass through events

Country Energy supports the AER's preliminary position on determining materiality for pass through events that are prescribed in the National Electricity Rules. However, Country Energy believes that no materiality threshold should be applicable to pass through events explicitly included in the AER's final determination.

This approach would be similar to the current approach in New South Wales where specific pass through events have been recognised as part of the determination, but due to uncertainty surrounding both their timing and costs, the Independent Pricing and Regulatory Tribunal (IPART) included them as specific pass through events. Specific pass through events were those events where costs were expected to be incurred during the regulatory period but could not be quantified before IPART made its final determination. IPART also decided that because the costs were foreseen at the time of making the final determination, it was inappropriate to subject the costs to a materiality threshold.

Country Energy also seeks clarification from the AER on whether the materiality threshold would apply to a single project or a number of cumulative similar projects arising from a pass through event.

Country Energy would be pleased to discuss the matters raised in this submission with the AER. If you require further information or clarification in relation to this submission please feel free to contact Natalie Banicevic on 02 6589 8419 or Jason Cooke on 02 6338 3685.

Yours sincerely



Bill Frewen
Group General Manager External Relations