

**EnergyAustralia™**  
We're on it

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**George Maltabarow**  
**Managing Director**

Mr Steve Edwell  
Chairman  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001

*Steve*

Dear Mr Edwell

**AER Preliminary Positions Paper for NSW/ACT businesses  
Demand Management, Alternative Control Services and Pass Through Materiality**

EnergyAustralia is pleased to respond to the second AER preliminary positions paper (paper) on guidelines, schemes and models that it is required to consider for the NSW/ACT businesses under the new National Regulatory Framework. I am heartened that many of our suggestions made in response to the Preliminary Positions document have been adopted and expect that this second round of consultation should refine the proposals.

Our full response to the paper is included as the Attachment. I would however like to emphasise the following points:

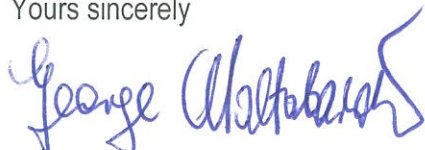
- I commend the AER in seeking to provide an incentive for innovative Demand Management, as an adjunct to the current D-factor arrangements. However the proposed expenditure limits are much too low to achieve this objective. I recommend streamlining the administration of the scheme and improving its incentive properties, by simply extending the existing eligibility criteria to facilitate broad based or less certain projects, to a maximum annual cap. For EnergyAustralia, that cap would need to be in the vicinity of \$10M per annum.
- I also support the AER in maintaining a consistent approach to the regulation of Alternative Control Services, principally public lighting, by setting a price cap for this service. A building block assessment will be the most appropriate way to determine the cost of this service, with a roll forward estimate of the asset value. The AER must recognise the linkages between: the cost of service; the prices paid; and the service levels provided, in making its public lighting determination.
- Finally, on the matter of materiality of pass through events, I am concerned that the threshold levels may be too high and that the AER needs to have proper regard to the principle articulated in the National Electricity Law, which requires the AER to allow a network service provider "a reasonable opportunity to recover at least the efficient costs the operator incurs". This will become particularly important if the AER uses the pass through provision to exclude certain projects and programs from the basic price path, as it has done in recent transmission decisions using the contingent project regime.



**Partner**

Given the significance of the matters covered in the preliminary positions papers and the need for further discussion and clarification on matters of detail, I support the AER's intention to maintain an open dialogue between our officers until the AER is required to make its final decision by 1 March 2008. If you have any questions concerning this response, please feel welcome to contact me on 02 9269 2111 or Mr. Harry Colebourn on 02 9269 4171.

Yours sincerely



**GEORGE MALTABAROW**  
*Managing Director*

Attach