

5 May 2006

Mr Roberts
Australian Energy Regulator
GPO Box 520
MELBOURNE, VIC 3001

Dear Mr Roberts

GAS AND ELECTRICITY DISTRIBUTION REGULATORY GUIDELINES – SCOPING PAPER

SP AusNet is pleased to offer comments in response to the AER's Gas and Electricity Distribution Regulatory Guidelines Scoping Paper.

SP AusNet notes that the AER is commencing development of the guidelines before firm policy positions on the national framework for economic regulation of distribution networks have yet to be advised by the MCE and for this to be translated into Rules. At the same time we recognise the AER's need to commence consideration of its approach to distribution regulation in anticipation of the transfer of regulatory oversight of distribution and retail functions into the national framework.

We believe it will be beneficial for the AER to ensure that stakeholders' views are taken into consideration even at this early stage of the process.

SP AusNet provides the following comments on the AER's Scoping Paper.

Relationship of Scoping Paper to Developing Policy Framework

In order to establish a firm policy position on the national framework for energy regulation, a number of reviews have been undertaken. These reviews have included the AEMC's review of the Electricity Transmission Revenue and Pricing Rules and the Gilbert and Tobin / NERA paper on distribution network regulation.

We note from the Scoping Paper that the AER intends to adopt the AEMC's proposed Draft Rules as the basis for developing the distribution guidelines, guided by an assumption that the Rules to be developed for distribution regulation will largely reflect the AEMC's proposed Draft Rule Proposal.

However, there are many aspects of the Draft Rule Proposal that relate specifically to electricity transmission, such as the form of regulation proposed (revenue capping) and the

service incentive proposals. For distribution, different regulatory arrangements may be appropriate given the distribution network has specific characteristics and challenges in relation to customer expectations, capex characteristics, service performance drivers and embedded generators etc. Therefore SP AusNet considers that the AER should not depend solely on the proposed transmission arrangements.

We believe that, in addition, the AER will receive initial benefit from engaging with distribution businesses to review the workability of already existing and well-developed distribution regimes in the various jurisdictions.

Consistent Guidelines for Electricity and Gas Sector

SP AusNet's preference would be for electricity and gas guidelines to be developed concurrently to ensure that all aspects of both sectors are fully explored. However, given the practical considerations for the AER, we agree that it would be pragmatic to develop a distribution guideline for electricity first.

If the AER proceeds to develop the guideline for electricity distribution first, then the AER should conduct an equivalent process for development of the gas guideline.

Timetable

SP AusNet notes that the AER's proposed timetable for development of the distribution guidelines appears to integrate with the anticipated release of policy and rules.

We look forward to further involvement in the AER's process.

Yours Sincerely

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