

Ref: 379/20/37

Tuesday, 29 February 2000

Attention: Jennifer Hocking
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Ms Hocking

DISTRIBUTION PRICING PAPERS

Thank you for your letter dated 22 December asking for comment on the draft decision paper "Ring Fencing Guidelines" and the issues papers "Framework for Regulation" and "Asset Valuation, Depreciation and Rate of Return".

Tarong Energy notes the objective of the Distribution Pricing regime as stipulated in the Code, particularly the following outcomes:

- incentive based regulation;
- promotion of competition in the upstream and downstream sectors; and
- fostering more efficient use of infrastructure.

Tarong Energy's comments on each paper are as follows:

1. Ring Fencing Guidelines

Tarong Energy fully supports the principles, as outlined in the draft paper, of full legal, accounting, cost and information separation between the "wires" and "retail" businesses of the Distribution company to ensure cross-subsidies do not exist between the businesses.

The allocation of costs of "shared" functions and resources such as marketing and call-centre operations need to be made in accordance with strict and auditable rules to remove cross-subsidies. The Distribution businesses must be compelled to demonstrate that Policy and Procedures are available and enforced to ensure that the cost allocation of shared nature mentioned above and the flow of information of a competitive nature (for example, another retailer's customer load information or network service provisions such as hot water load switching) from the monopoly wires business to the subsidiary retail business, giving the latter a real or perceived competitive advantage, must not occur.

2. Framework for Regulation

Network Performance Standards

Tarong Energy considers the distribution network performance standards very important inputs in the determination of the regulated revenue base.

It is a concern that this issue has not been resolved at this stage of the consultation process. Tarong Energy believes it is essential that the standards be set and mechanisms for measurement be substantially in place before the final determination of the revenue or price level.

Period of Regulation

Tarong Energy believes that, at this stage of the market development, the period of regulation be as short as permissible because:

- The market is evolving with participants and regulators continuously in adjustment and improvement mode. The short duration provides the needed flexibility to reasonably respond to issues; and
- Demand side management and embedded supply side projects with short lead times can be incorporated into network augmentation solutions.

It would therefore be preferable to adopt the minimum period, as stipulated in the Code, of three years as the first period of regulation. Once the market reaches maturity, the regulatory period can then be raised to five years.

3. Asset Valuation, Depreciation and Rate of Return

Section 5.3: Time periods over which excess capacity is expected to be fully utilised and the frequency of valuation/optimisation should be minimised to allow all competitive options to be considered for network augmentation. Tarong Energy suggests that a three-year time frame would be appropriate and in-line with the first period of regulation. It is also essential the Distribution entity be required to take into account these competitive options in the determination of the monopoly network solution.

Tarong Energy looks forward to continuing consultation on these and other issues.

Yours Sincerely

Andrew Kremor
GENERAL MANAGER, MARKETING & TRADING

Enquiries: Thao Doan
 Telephone 07 3228 4351
 Facsimile 07 3228 4319