



The
Treasury

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Contact: R Cox
Telephone: (02) 9228 4240
Your Reference:
ERC0134/ERC0135

Mr J Pierce
Chair
Australian Energy Markets Commission
PO Box A2449
SYDNEY SOUTH
NSW 1235

14 OCT 2012,
12 OCT 2012

Dear Mr Pierce

Draft Rule Determination - Economic Regulation of Network Service Providers

The NSW Government appreciates the need to strike the right balance between supporting the investment necessary for maintenance of network reliability on one hand and preventing overinvestment, leading to unnecessary price increases, on the other hand.

In the reports of the review of the Limited Merits Review (LMR) regime, Professor George Yarrow and the review panel have noted that business and regulatory decision making for electricity networks has given insufficient attention "to the long term interests of consumers". For this reason the NSW Government supports the proposed changes, as they will better equip the AER to implement an incentive based regulatory approach consistent with the achievement of efficient outcomes in revenue and price setting. In particular, it is essential that the proposed rule changes create incentives that drive costs and prices to levels associated with a regulated asset base that only includes capital expenditure that is efficient and in the long term interests of consumers. This approach will help keep electricity prices as low as possible consistent with a reliable network.

As part of the draft rule determination, the AEMC has agreed that the same regulatory framework should be applied to Government owned and privately owned network businesses. This is consistent with the competitive neutrality obligations of all Australian Governments, in particular the requirement to apply the Competition Principles Agreement to government owned businesses. Competitive neutrality is necessary to achieve the objective of efficient network investment.

We reiterate the points made in NSW Treasury's original submission (23 December 2011) relating to this rule change application.

The NSW Government also notes that network businesses, both publicly and privately owned, have expressed concerns on a number of matters necessary for the establishment of and transition to the new rules. These issues including alternative transitional approaches should receive full and transparent consideration by the AEMC and AER especially during the development of the relevant guidelines and regulatory approaches.

The NSW Government has taken a number of actions to continue to reduce the upward pressure on electricity prices including:

- The Government has reformed the three distribution companies to deliver \$400 million cost savings over four years. The Government has also enhanced the Governance arrangements of its network businesses to ensure that they are operating efficiently and effectively.
- The Government commissioned the AEMC's review of the electricity license conditions in response to concerns about the impact of reliability related capital expenditure on power prices.
- The former Government's financially unsustainable Solar Bonus Scheme has been closed to new customers to reduce impacts on energy prices.
- The Greenhouse Gas Reduction Scheme was closed upon the commencement of the Federal Government's carbon pricing mechanism.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'P. Gaetjens'.

Philip Gaetjens
Secretary