

23 June 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Dr Tamblyn

EUAA return on capital Rule change proposal

Thank you for the opportunity to provide a submission on the Energy Users Association of Australia's (EUAA's) Rule change proposal regarding the values to be attributed to the equity beta and gamma parameters used to determine the return on capital component of a network's regulated revenue allowance.

Integral Energy submits that the proposal should be rejected and endorses the reasons for this view set out in the submission lodged by the Energy Networks Association (ENA).

In summary, Integral Energy submits that the proposed Rule change:

- would alter one of the key transitional arrangements for the NSW and ACT regulatory determination processes put in place by the Ministerial Council on Energy (MCE) with effect from 1 January 2008 — the NSW and ACT distribution businesses prepared and submitted their regulatory proposals on 2 June 2008 on the basis of those transitional arrangements. Any change to the arrangements would be contrary to the policy decision by the MCE to provide certainty with respect to those key return on capital parameters and ensure an appropriate and benchmarked return on capital allowance for the 2009 to 2014 regulatory control period¹;

¹ See for example, the MCE's Standing Committee of Officials (SCO), *Changes to the National Electricity Rules to establish a national regulatory framework for the economic regulation of electricity distribution - Explanatory Material*, April 2007, p 44.

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- would pre-empt and therefore prejudice the AER's upcoming reviews of the rate of return parameters required under both Chapters 6 and 6A of the National Electricity Rules (Rules) — those reviews are required to be completed by mid 2009. Having individual parameters investigated by the AEMC concurrently with the AER's review is contrary to the explicit policies of both the MCE and AEMC²; and
- is not supported by the analysis and evidence provided as part of the EUAA's proposal — the AEMC's own view (now reflected in clause 6.5.4(e)(4)(ii) of the Rules) is that persuasive evidence should be required before a regulator alters a return on capital parameter. On this basis, the material provided is insufficient.

Integral Energy considers that the most appropriate course of action is that the AEMC determine not to make the proposed Rule and instead allow the matters the subject of the EUAA's proposal to be fully considered by the AER as part of its upcoming comprehensive reviews.

Should you wish to discuss any aspect of this submission, please contact Anthony Englund on (02) 9853 6511.

Yours faithfully



Vince Graham

Chief Executive Officer

² MCE SCO, *Response to stakeholder comments on the Exposure Draft of the National Electricity Rules for distribution revenue and pricing*, p 85 and AEMC, *Draft Determination, National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 No 1*, July 2005, p 60 et seq.