



Treasurer of New South Wales
Australia



Brendon Crown
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The Honourable Doctor Meredith Anne Burgmann
President
Legislative Council
Parliament House
Macquarie Street
SYDNEY NSW 2000



7 DEC 2001

Dear President

**Standing Committee on State Development:
Report on the merger of Country Energy Distributors**

I refer to the recommendations of the above report, released on 31 May 2001. The Government has considered the Committee's recommendations. A response to each of the recommendations is attached.

Yours sincerely

Michael Egan
Treasurer

*Received by me 10 am 18/12/2001
and authorised to be published.*

*Brendon Crown
Clerk of the Parliaments*

Government's response to the recommendations of the Standing Committee's review of the Country Energy Merger

Recommendation 1

IPART to continue to work with DNSPs to establish ring fencing guidelines for network businesses and facilitate effective ring fencing of DNSP network businesses, to amongst other things, develop clearer network cost structures, accounting and performance measures.

Response

IPART has released two draft reports outlining proposed ring-fencing guidelines for the New South Wales electricity distribution network service providers (DNSPs). IPART has invited comment from interested parties on the detail of the proposed guidelines. All DNSPs have participated in this process. IPART is scheduled to publish its final report on recommended ring-fencing guidelines in December 2001.

Recommendation 2

IPART address any impediments arising from Country Energy operating 3 regulated tariff structures at its 2002 mid term review

Response:

A mid-term review of the current IPART determination of regulated retail prices is planned for 2002. The Government intends to include a term of reference for that review requiring IPART to consider any transitional issues for Country Energy in implementing the existing determination of regulated retail tariffs.

Recommendation 3

IPART give consideration to DNSPs recording any internal community service obligations or cross subsidy in annual reports and customer accounts arising from a commercial decision or necessitated by the IPART's regulated pricing determination.

Response:

The IPART determination on network prices (1999 to 2004) requires all NSW DNSP's to publish a pricing information package by 30 November each year. The package includes detail sought by the Committee on cross subsidies between the various network prices. The package explains the methodology used to calculate prices. It shows how costs are allocated to customer classes and regions for pricing purposes and outlines future pricing strategies.

Recommendation 4

Treasury and IPART pro-actively ensure a smooth and rapid transition to the formation of Country Energy

Response:

Country Energy was effectively established on 1 July 2001. The Energy Services Corporations Act was amended on 1 June 2001 to change the name of NorthPower to Country Energy. Changes were made to the Electricity Supply Act on 1 July 2001 amalgamating the 3 distribution districts within Country Energy. Statutory transfer orders were effected on 1 July 2001 to transfer the staff, assets, rights and liabilities of Great Southern Energy and Advance Energy to Country Energy. Further Savings and Transitional provisions were also implemented to ensure a smooth legal transition from 3 separate businesses to a single business.

Recommendation 5

In the event surplus labour requirements in some occupations are identified, a freeze on any terminations should be applied until a needs analysis of staff requirements is undertaken and that negotiations be initiated with relevant unions and relevant communities prior to implementation.

Response:

There have been no forced redundancies as a result of the merger. Country Energy is currently analysing staff requirements across the organisation. The analysis has already shown a shortfall in staff requirements for network reliability and service delivery. Country Energy will address this shortfall by employing 61 apprentices this financial year. A staffing needs analysis in the management/corporate area is currently underway.

Recommendation 6

That the Minister for Energy initiate a public information campaign within the proposed Country Energy distribution area to inform the community of the proposed changes and their implications.

Response:

Country Energy carried out a thorough public information campaign informing the community of the merger. All customers received a bill insert explaining the merger. Country Energy informed the wider community of the proposed changes through television and press media, run over a period of three months.

Recommendation 7

The Board of Country Energy review access levels for consumers in rural areas and implement measures to provide these customers with improved access to supply of electricity whether by supply line or by energy alternatives, at reasonable cost.

Response:

IPART recently released its Draft Determination into Capital Contributions for DNSPs. The Determination clarifies how customers will contribute to the capital costs of connecting to the electricity distribution network. It also gives customers access to an independent dispute resolution process for resolving any disputes concerning capital contributions.

There are a number of other initiatives in place to improve access to the network at reasonable cost:

- unifying the capital contributions policies of the predecessor organisations into a single policy document;*
- lifting levies on customers for augmenting the shared network and abolishing the requirement for customers to pay for standard metering.*
- contestability for construction of new connections to the electricity distribution network;*
- providing alternatives to network connection, such as small scale standalone generation and alternative energy sources, where the costs of connection are high enough to warrant consideration of these options;*
- upholding local Council requirements for developers of rural subdivisions to have an adequate electricity supply provided to the subdivision before approval;*
- separating (ring fencing) the core networks business unit from the associated competitive contestable works function.*

Recommendation 8

An independent review be conducted of energy supply reliability considering among other things: the cost of upgrading infrastructure to ensure benchmark reliability; impacts of infrastructure maintenance on supply reliability; and methods to improve reliability of supply.

Response:

Although not a merger-specific issue a number of initiatives were recently introduced by the Ministry of Energy and Utilities in relation to reliability of supply. These include:

- *Commitment to Network Service Quality*
- *Asset Management Strategies*
- *Translation of Asset Management Strategies into Annual Maintenance Plans*
- *Initiatives in Place to Measure the Effectiveness of Asset Management Strategies and Plans*
- *Target Network Service Outcomes*

DNSPs are also required to prepare a report on their "Commitment to Network Service Quality" as part of their Statement of Corporate Intent.

Recommendation 9

The Minister for Energy, the Treasurer and IPART:

- consider recommendations of the independent review of energy distribution infrastructure;
- take proactive measures to ensure sufficient capital and maintenance expenditure is committed to ensure the reliability of energy supply by line or alternative means.

Response:

Consistent with an overall role of oversight of the energy sector the Government will monitor the information provided by DNSPs and independent work undertaken by IPART, in order to assess energy supply and distribution reliability in NSW.

Recommendation 10

IPART consider imposing a commitment to service obligation as a performance requirement for DNSPs with respect to service connection and reliability.

Response:

IPART has commissioned two reports relating to service standards since handing down the December 1999 determination for the NSW electricity distribution industry.

All DNSPs remain committed to assisting IPART in identifying and moving towards an optimal level of service quality. To assist the regulator in this respect, the NSW distributors will research customer preferences for service standards. The information and outcomes of this review can then be used to implement a regulatory framework that provides the incentives for maintaining appropriate service levels, whilst achieving efficient cost outcomes.

Recommendation 11

The Minister for Energy work with all DNSPs to ensure a robust customer response operation be implemented which should provide accurate and timely feedback to customers when calls are received reporting electricity supply interruptions.

Response:

As a licence requirement, all DNSPs must have a dedicated fault and emergency number. Calls to this number must be monitored and reflected in annual license compliance reporting.

Recommendation 12

The Board and management of Country Energy conduct a review of the effectiveness of the existing consumer consultative groups within the former distribution areas. To promote community confidence, the review should give consideration to:

- whether or not geographical areas are adequately represented;
- retaining at least current number of consultative groups;
- establishment of rurally based consultative groups;
- formalising board responses to consultative group reports.

Response:

Country Energy reviewed the effectiveness of the existing consumer consultative groups in August 2001. Country Energy sought views on the issues raised in the Recommendation as well as other issues of concern to consultative group members. Based on these discussions, Country Energy developed a three-tiered structure for consumer consultation:

- *Electricity Supply regulations require Country Energy to establish a Customer Council charter. Members were appointed to the Council represent the customer groups set out in the Charter.*
- *Country Energy recently introduced a Rural Advisory Group, consisting of members from rural customer segments.*
- *Country Energy will introduce eight Regional Advisory Boards to deal with region specific issues. The boards will have direct access to Regional General Managers.*

Recommendation 13

DNSPs report the number of complaints received in aggregate terms to the Energy and Water Ombudsman NSW.

Response:

This information is required to be submitted to IPART under the License Compliance Regulations and is publicly available.

Recommendation 14

That the Minister for Energy work with the Energy and Water Ombudsman NSW to produce a leaflet explaining the role and functions of the Ombudsman and that this leaflet be included with energy accounts and promotions to customers on a regular basis.

Response:

Country Energy is currently working with Ministry and the Ombudsman's office to produce a brochure, outlining the various payment options for customers etc. The brochure will have reference to the Ombudsman's office. This brochure is aimed at Country Energy customers.

Recommendation 15

The committee recommends that the Legislative Council supports the merger of Advance Energy, Great Southern Energy and NorthPower to form Country Energy.

Recommendation 16

The committee recommends that regulations be made with respect to the *Energy Services Corporations Act 1995* and *Electricity Supply Act 1995* to legally constitute Country Energy.

The establishment of Country Energy was legally constituted through the making of three Regulations: the Energy Services Corporations (Country Energy) Regulation 2001 which commenced 1 June 2001; the Electricity Supply (Country Energy) Regulation 2001 which commenced 1 July 2001; and the Energy Services Corporations (Dissolution of Energy Distributors) Regulation 2001 which commenced 5 July 2001.

Recommendation 17

That the Committee:

- monitor the establishment of Country Energy for a 4 year period (until 31 May 2005);
- consider issues arising from the amalgamation of 3 distributors;
- table any additional report in the Legislative Council from time to time; and
- consider feedback from consumers, local community groups, industry, unions and local government bodies.

Response:

This is a matter for the Committee to consider.

Recommendation 18

That the Minister and Treasurer provide to the committee, annual reports that identify the progress of Country Energy with respect to employment of staff, impact on rural and regional communities, repairs and maintenance, customer service, tariff structures and financial returns to the Government. The first review should commence from enactment of the regulations to the Energy Services Corporation Act 1995, until 30 June 2002. Reviews thereafter should be conducted annually up to and including 30 June 2005.

Country Energy's annual report will provide details of staff, rural and regional benefits, maintenance, financial returns to Government and customer service. IPART publishes details of tariff structures publicly, through the internet. Government supports the public availability of this information, but considers a separate review of data already published redundant.

Recommendation 19

That the Energy and Water Ombudsman NSW provide the committee, annual reviews of its' activities with respect to Country Energy until 30 June 2005.

The Ombudsman's office will separately identify the number of complaints in its next annual report, categorised by business. The report will include a statistical summary of customer types (eg residential, business) and types of complaints (eg billing, disconnection, reliability). The summary will show complaints as a proportion of customer numbers to give context.

The Ombudsman currently provides these statistics to the Minister for Energy and IPART on a quarterly basis. The Ombudsman indicated that she could provide these quarterly statistics to the Standing Committee.