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# Managing Regulation

**Jane McAloon, Group Manager Corporate & External Services**  
**Rob Wiles, General Manager, Regulation & Policy**



- **Areas of interest**
- **Policy & regulatory frameworks**
- **Modern energy regulation**
- **Gas & Electricity Access Regimes**
- **Key policy & regulatory players**
- **NSW Gas & Vic Elec. Distribution Network Reviews**
- **Future regulatory scheme**

- **Influencing policy direction**
  - national energy policy
  - energy industry reforms & national regulator
- **Managing strategic regulatory issues for AGL**
  - regulatory frameworks (retail, distribution, wholesale)
  - market structure (wholesale, retail)
  - review of gas access regime & NEM reviews
- **Managing gas & electricity access issues**
  - review of NSW gas network tariffs
  - review of Victorian electricity distribution tariffs

## Existing arrangements create complexity...

Policy & legislation made by Federal & State Governments

Regulation made by Federal & State Governments

**ACCC**

**Transmission regulation**

**Competition regulation**

**National approach**

**State Economic  
Regulators**

**Retail & distribution  
regulation - some  
regulators make rules also**

**Approaches depend on  
legislative powers**

**...different approaches, frameworks and results**

## Energy sector regulation is changing slowly...

- **Origins in Hilmer's "National Competition Policy" Review**
  - enhance competition where feasible (w/sale & retail markets)
  - open access to 'essential facilities' (transmission & distribution networks)
- **Current trends**
  - balancing policy and business objectives
  - lighter handed regulation (retail & gas transmission)
  - competition and market structure
  - focus on environmental and social issues

## Hierarchy of legal instruments ...

- **Gas Pipelines Access Law (Agreed bw Governments)**
  - high level principles
- **Gas Code**
  - open access principles
  - 5-year access arrangements
  - pricing principles
  - protection for asset owners
- **Access Arrangements (Regulators)**
  - standard terms of access
  - review every 5 years

Electricity has a different hierarchy of instruments...

- **National Electricity Law (Governments)**
  - legal backing
  
- **National Electricity Code**
  - market rules
  - access framework
  
- **Jurisdictional Schemes (Regulators)**
  - 5-year pricing reviews
  - regulator's guidelines

**Successful outcomes require broad stakeholder management...**

- **Governments (Federal and States)**
- **Regulators (ACCC and State Regulators)**
  - **Tribunal members / commissioners**
  - **Secretariat staff**
- **Major Customers & Groups**
- **Energy Retailers**
- **Community Organisations**
- **Interconnecting Asset Owners**
- **Ombudsmen**
- **Media**

**Access Arrangement expires on 31 December 2004...**

- **Regulator: Independent Pricing and Regulatory Tribunal**
- **Review process is well under way**
  - **proposed new Access Arrangement Dec '03**
    - **public consultations & reviews by consultants**
  - **draft decision scheduled for Nov '04**
    - **further consultations**
  - **final decision scheduled for Feb '05**
    - **can only approve or reject AGL proposal**
    - **rights to seek review if necessary**
  - **implemented from 1 April 2005**

Different reviews focus on different factors...

- **Previous reviews in 1996 & 2000**
- **Top priority in 2000 was capital base**
  - Gas Code does not permit reopening
- **Key issues in 2004**
  - rate of return (WACC)
  - efficient operating costs

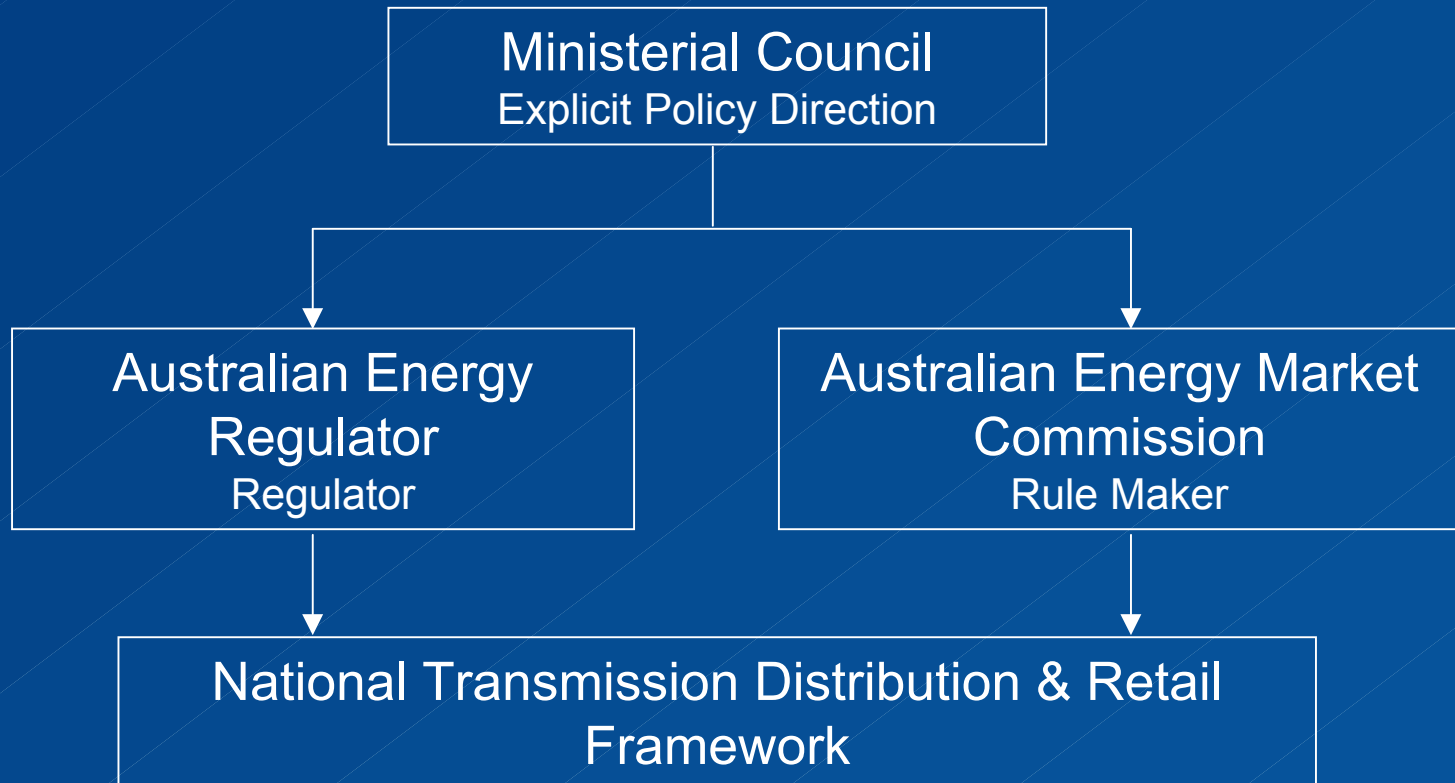
Current arrangements expire 31 December 2005...

- **Economic Regulator: Essential Services Commission**
- **Review process has just begun**
  - submission to ESC on 21 October 2004
  - draft decision expected May '05
  - final decision expected Oct '05
    - ESC has full discretion over outcome
  - implemented from 1 January 2006

## Focus on different factors...

- **Previous review in 2000**
  - efficiency carry-over mechanism
  - capital base established
  - efficient operating costs
  - rate of return (WACC)
- **Key issues in 2005**
  - rate of return
  - capital cost projections

## New scheme reduces the number of regulators...



**...and will simplify framework**

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