

**POWER**  
—AND—  
**WATER**  
AUTHORITY



Energy House • 18-20 Cavenagh Street • GPO Box 1921, Darwin NT 0801

Enquires Mick Clifford

Telephone 8924 7922

Facsimile 8924 7095

Ms Anne-Marie Hart  
Executive Officer  
Utilities Commission  
GPO Box 915  
DARWIN NT 0801

**Dear Ms Hart**

**RE: PROPOSED AMENDMENTS TO THE RING-FENCING CODE**

Thank you for the Commission's letter of 23 January 2002 seeking PAWA's views on the proposed changes to the Ring-fencing Code.

Power and Water Authority (PAWA) understands the changes are to formalise the uncertainty regarding the related business status of certain activities within prescribed businesses as they interact with other prescribed businesses. This aspect was not clarified in the current Ring-fencing code.

The table below illustrates PAWA's understanding of the intended outcome of the proposed amendments.

<b>Business Relationships under the Ring-fencing Code</b>		
<b>Prescribed Businesses</b>	<b>Retail Contestable</b>	<b>Generation's Contestable Market Activities (new)</b>
Generation	Related Business Relationship	
Networks	Related Business Relationship	Related Business Relationship
System Control	Related Business Relationship	Related Business Relationship
Retail Franchise	Related Business Relationship	Related Business Relationship

Whilst PAWA has no objections to the changes as they relate to the information handling requirements under the Code, we have some major concerns regarding their potential application to the accounting and cost allocation procedures. PAWA does not currently separate Generations' "Contestable Market Activities" from their "Prescribed Business Activities" in its General Ledger. Therefore, in an example where Networks may bill Generation's Contestable Market activities, it will be paid from Generation (the whole business unit).

PAWA has the facilities to make the distinction between prescribed and related Generation activities for pricing purposes, however It would add an extra layer of complexity if we were required to separate accounting entries.

PAWA will Implement a new Financial Management System on 2 April 2002. Considerable time, effort and expense have been invested in this project. Changes to the structure of the General Ledger and subsidiary systems at this late stage would cause PAWA additional logistic concerns, push out the Implementation date and incur an estimated price Increase of \$60 000. PAWA is not prepared to make these changes especially considering that Generation may not always be classified as a Prescribed Business. Generation's current classification as a Prescribed Business is due to the Commission's assessment that it has a dominant market position.

If the Commission does not intend that the amended definition of Related Business apply for the purposes of accounting and cost allocation, PAWA suggests the following:


***Related Business***, for the purposes of information handling procedures means, in relation to a particular ***Prescribed Business*** of an ***Electricity Entity***, any business carried on or activities undertaken in the ***Electricity Supply Industry*** by that ***Electricity Entity*** or an ***Associate*** of that ***Electricity Entity*** operating In a ***Contestable Market*** which do not form part of that ***Prescribed Business***.

***Related Business***, for the purposes of Accounting and Cost Allocation procedures means, in relation to a particular ***Prescribed Business*** of an ***Electricity Entity***, except for Generation, any business carried on or activities undertaken in the ***Electricity Supply Industry*** by that ***Electricity Entity*** or an ***Associate*** of that ***Electricity Entity*** operating in a ***Contestable Market*** which do not form part of that ***Prescribed Business***.

PAWA also suggests a change to the definition of contestable market:

**"Contestable Market"** means a market within the Electricity Supply Industry in which more than one supplier is operating in the market or in which there are no statutory Impediments to the entry of new suppliers into that market.

Yours sincerely



**RICHARD GALTON**  
A/Chief Executive Officer

1 March 2002