

6 June 2002

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ELECTRICITY GOVERNANCE BOARD - AUTHORISATION APPLICATION

1. In paragraphs 1.4, 10.7 and 10.8 of the applicant's submissions of 22 May, the applicant advised that it was not at that stage in a position to put forward suggested conditions to address concerns identified by the Commission in the draft determination.
2. Proposed rule changes have now been reviewed by the Governance Working Group ("**GWG**"). At its meeting yesterday, the Electricity Governance Establishment Committee ("**EGEC**") considered rule change proposals approved by the GWG.
3. EGEN does not accept the Commission's concerns regarding the risk of pro-competitive rule changes being voted down. Nevertheless, EGEN has authorised Part A of Proposal 1 set out in Annex 1 to this letter being put forward to the Commission on the basis that if, following the completion of the conference, the Commission is not satisfied that the public benefits of the proposed arrangement are likely to outweigh the competitive detriments flowing from it, the Commission could impose as a condition that the Rulebook be changed in the way set out in Part A of Proposal 1.
4. If, notwithstanding the imposition of the condition proposed in the previous paragraph, the Commission still remains concerned at the risk of pro-competitive rule changes being voted down, EGEN proposes that the Commission impose a further condition requiring that the Rulebook also be changed in the way set out in Paragraph B of Proposal 1. EGEN separates the two parts of Proposal 1 because it has evaluated the proposed conditions against its own intended Guiding Principles and suggests that there is a clearer consistency between the Guiding Principles and the first part of Proposal 1 than the second.
5. EGEN also does not accept the concerns expressed by the Commission regarding the extent of the mandatory rules in the Rulebook. If the Commission does not accept the applicant's arguments on this aspect and is not satisfied that the public benefits of the proposed arrangement are likely to outweigh the competitive detriments, EGEN proposes that the Commission impose a condition requiring that the Rulebook be changed in the manner set out in Proposal 2. This change is designed to facilitate industry parties engaging in alternative trading arrangements if this has a net efficiency benefit.

6. We would be grateful if you would circulate this letter and annexure to all interested parties as soon as possible so that they have adequate opportunity to fully consider the implications of the proposed conditions ahead of the conference.

Yours faithfully
RUSSELL McVEAGH

A handwritten signature in black ink, appearing to read 'Derek Johnston', with a long horizontal flourish extending to the right.

Derek Johnston
Partner

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