Energy Retailers Association of Australia
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T (02) 8241 1800 **W** www.eraa.com.au

3 July 2015

Mr Sebastian Roberts
General Manager - Networks Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Email: QLDelectricity2015@aer.gov.au

Dear Mr Roberts,

RE: Preliminary Decisions for Ergon Energy and Energex determinations 2015-16 to 2019-20

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Australian Energy Regulator's (AER) Preliminary Decisions on Ergon Energy and Energex determinations 2015-16 to 2019-20 (**Preliminary Decisions**).

The ERAA represents the organisations providing electricity and gas to over 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The ERAA welcomes the AER's Preliminary Decisions for both Ergon Energy and Energex (the Queensland distributors) as they seek to establish appropriate incentive structures for the Queensland distributors to improve their capital allocation and drive operational efficiencies. However the ERAA believes the AER's decision does not extract the full scope of possible efficiencies and that further reductions in overhead costs are appropriate. The ERAA supports the AER decision to adopt risk based and relevant unit cost forecast to determine the capital expenditure allowance in preference to trending historic spends and the AER's proposed reductions to augmentation and replacement capital expenditure.

In relation to the approach taken by the AER with respect to the operating expenditure for the Queensland distributors, the ERAA does not support the AER's decision to lower the benchmark efficiency threshold and is disappointed in the lack of consultation prior to making this change given the materiality of the decision. The ERAA maintains that the inefficiencies in the category analysis identified by the AER's consultants warrant further reductions to both overhead and non-network costs.

The ERAA also supports the AER's proposed methodology and determination in relation to the Weighted Average Cost of Capital (WACC). The ERAA believes the Preliminary Decision on the WACC better reflects the efficient financing costs of the Queensland distributors with respect to the level of and exposure to risk that applies to an Australian regulated DNSP and should be preferred over the estimates provided by each of the businesses.

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The ERAA welcomes the removal of exit fees as this is necessary to promote effective competition in metering and related services and to allow customers to compare the costs and benefits of different metering service options. The ERAA does not support the AER's revised methodology on the calculation of metering charges as the AER has not undertaken sufficient and robust analysis to fully understand the long-term implications of its decision on metering contestability or if there is a more preferable approach to determining the methodology. Clearly defined and efficiently set metering charges are necessary for the expansion and development of competition in metering.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,

Alex Fraser
Interim CEO
Energy Retailers Association of Australia

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