

31 August 2001



Mr Michael Rawstron
General Manager
Regulatory Affairs – Electricity
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Our ref: R-01-187

Dear Mr Rawstron,

**DRAFT DECISION – QUEENSLAND TRANSMISSION NETWORK
REVENUE CAP 2002-2006/7**

We refer to the Commission's Draft Decision ('the Draft Decision') on Powerlink Queensland's *"Application – Transmission Network Revenue Cap – Commencing January 2002"*.

We ask that you accept this letter as a submission by Ergon Energy Pty Ltd and Ergon Energy (Victoria) Pty Ltd (collectively referred to as 'Ergon Energy') on the Draft Decision. Ergon Energy is the holder of a Retail Licence/Authority and participates as a Retailer in all National Electricity Market Jurisdictions (with the sole exception of South Australia).

We note the Commission's interest in obtaining the views of grid customers regarding the treatment of transmission use of system ('TUoS') charges under the Draft Decision.

In particular, we note that the Commission has chosen to derive the revenue path by incorporating the 2001/2002 Queensland Electricity Reform Unit valuation and applying a NPV neutral smoothing process to derive Powerlink's revenue path in the following years (that is, a gradual increase in charges). This approach to the issue of revenue 'smoothing' is different to that proposed by Powerlink which would see a larger initial increase in TUoS, and a reduction in subsequent years.

Of the two approaches, Ergon Energy prefers that proposed by the Commission.

As stated in our submission of 20 April 2001, consideration is required of the impact of Powerlink's proposals on customers in the form of price shocks and the manner in which these price shocks may adversely influence or distort the outcomes of concurrent market developments. These concerns apply not only to the total revenue received over the period of the Determination but also to the revenue path applied throughout the Determination period. In particular:

- Existing contestable customers will become immediately exposed to increased TUoS via pass-through. While affecting all contestable customers, this will have a material impact on those customers for whom the benefits of

contestability are currently marginal, when making their decision whether to enter the market.

- The public will perceive any step-change in TUoS coinciding with the introduction of full retail competition as a direct result of the introduction of competition. This will only serve to distort price signals and exacerbate public apprehension regarding entry to the contestable market and deregulation of the electricity market. This will be particularly apparent upon the introduction of full retail competition where residential customers are unlikely to see significant savings without even considering the impact of increased TUoS.

We remain concerned therefore that the initial increase in TUoS proposed may adversely impact on competition and customer perceptions regarding the benefits of moving to the contestable market and the entire deregulation process. In light of these risks, the 'straight-line' approach to smoothing proposed by the Commission should be preferred.

Consideration is also required of the means by which price shocks to consumers, arising from step-changes in the transition from the forthcoming regulatory period to the next, can be mitigated. Although the approach to revenue smoothing adopted by the Commission appears the more responsive of the two approaches proposed to this risk, we believe that this issue should be addressed by the Commission in reaching its Final Decision.

We thank you for the opportunity to provide comment on the Draft Decision. Please feel free to contact Sandra Heymer on (07) 3228 8259 should you have any queries or wish to discuss this submission in any way.

Yours faithfully,

Darren Barlow
Manager Regulation
Strategic Business Development Group