

Ref.: BN 008/0833/0063

13 June 2006

Mr Mike Buckley
General Manager – Network Regulation (North)
Australian Energy Regulator
P O Box 1199
DICKSON ACT 2602



Email: aer inquiry@aer.cov.au

Dear Mr Buckley

Powerlink's Revenue Cap Application

Ergon Energy Pty Ltd (Ergon Energy) appreciates the opportunity provided by the Australian Economic Regulator (AER) to comment on the Powerlink Revenue Cap Application (Application), dated 3 April 2006. This submission is made by Ergon Energy in its capacity as an electricity retailer in the National Electricity Market (NEM).

Timely and efficient investment in transmission is an issue of particular importance to Ergon Energy given the dispersed nature of our customer base and the unique geographic characteristics of the Queensland network. Furthermore, Queensland is currently experiencing high levels of demand growth which in turn requires significant levels of infrastructure investment to be made.

While an increase in Powerlink's revenue requirement is expected, given current levels of demand growth, consideration should be given to the impact these increases will have on end-users. This is of particular importance given the Powerlink proposal includes a once-off price increase of 15.5 per cent in 2007/08; representing a proposed annual price increase of 5.5 per cent and a 10 per cent once off change in the treatment of capital expenditure from 'as commissioned' to 'as incurred'.

Consideration should be given to the impact of Powerlink's application on consumers, namely price impacts 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 regulatory period (2007–2012) but also to the revenue path applied throughout the regulatory period. In particular:

- existing contestable customers will become immediately exposed to increased transmission use of system (TUoS) charges via pass-through. While affecting all contestable customers, this will have a material impact on those consumers for whom the benefits of contestability are currently marginal;
- given Powerlink's regulatory reset coincides with the introduction of full retail competition in Queensland, consumers may incorrectly attribute the changes in TUoS to the introduction of competition, damaging public perception of the deregulation process.

In light of these risks, any significant price shocks must be smoothed over the regulatory period to minimise the impact on end-users.

Please feel free to contact me on (07) 3228 7536 should you wish to discuss any aspect of Ergon Energy's submission.

Yours sincerely

Angela Moody
Manager, Regulation Policy

Telephone: 07 3228 7536
Facsimile: 07 3228 7766
Email: angela.moody@ergon.com.au