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14 May 2008

Mr Chris Pattas
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Network Regulation South Branch
Australian Energy Regulator
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Email: AERInquiry@aer.gov.au

Dear Mr Pattas

Post-tax Revenue Model for Electricity Distribution Network Service Providers

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity provided by the Australian Energy Regulator (AER) to comment on the development of the Post-tax Revenue Model (PTRM) to support the transition to a nationally consistent framework for the economic regulation of electricity distribution networks.

The attached submission represents Ergon Energy response to the AER's proposed PTRM Handbook and the accompanying Explanatory Statement.

Ergon Energy would welcome the opportunity to discuss this submission or provide further detail regarding the issues that it has raised should the AER require.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tony Pfeiffer', written over a horizontal line.

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Ergon Energy Corporation Limited

**Proposed Electricity Distribution Network
Service Providers Post-Tax Revenue Model –
Submission**

Australian Energy Regulator

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This submission, which is available for publication, is made by:

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Overview

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its consultation “*Proposed electricity distribution network service providers post-tax revenue model*” (April 2008) (PTRM Explanatory Statement) and proposed “*Post-tax revenue model handbook*” (April 2008) (PTRM Handbook). This submission is provided by Ergon Energy, in its capacity as an electricity distribution network service provider (DNSP) in Queensland.

Ergon Energy is available to discuss this submission or provide further detail regarding the issues that it has raised should the AER require.

1 Introduction

No comment.

2 Rule requirements

No comment.

3 Reasons for the post-tax revenue model

No comment.

4 Issues raised in submissions and the AER response

Consistency with PTRM for transmission

As per the Roll Forward Model (RFM) explanatory statement, the PTRM Explanatory Statement indicates that assets are to be grouped according to common lives.

The AER also questions whether the proposed 50 asset categories are necessary for most DNSPs such that the generic models would require amendment.

Consistent with its response to the RFM explanatory statement, Ergon Energy notes that the grouping of assets according to common (standard) lives represents a significant deviation from the current regulatory arrangement whereby assets are grouped according to function.

Ergon Energy seeks confirmation as to whether assets are required to be grouped according to common standard lives or if assets can be grouped as per their current regulatory reporting categories. Grouping assets according to function is Ergon Energy's preference.

Ergon Energy agrees that 50 asset categories would exceed the requirements of most (if not all) DNSPs and cannot see the benefit in amending generic models to incorporate such a change.

However, Ergon Energy notes that there should be sufficient flexibility in the generic models to accommodate the differing requirements of individual DNSPs and supports the use of 30 asset categories as suggested by the AER at the Forum on 23 April 2008.

Ergon Energy seeks confirmation that this remains the AER's intention.

As mentioned in its response to the RFM explanatory statement, Ergon Energy is unclear of the relationship between the asset categories used by a DNSP in the RFM and those used by a DNSP in the PTRM. The PTRM Handbook notes that the number of asset classes used in the PTRM must be the same as that used in the RFM. Ergon Energy understood that the actual asset classes (not simply the number of classes) are required to be the same between the RFM and the PTRM.

Ergon Energy seeks confirmation that its interpretation is correct or, to the extent that it is not, Ergon Energy seeks clarification of the relationship between the asset categories in the RFM and those in the PTRM.

5 AER preliminary positions

Ergon Energy provides the following comments regarding on the proposed PTRM Handbook.

Input sheet (Section 2.1)

- **Opening regulated asset base**

Consistent with Ergon Energy's comments in relation to the RFM handbook, Ergon Energy suggests that the PTRM Handbook should clarify the requirement for an opening RAB in the case where a DNSP proposes more than one form of price control (e.g. where it is proposed that standard control services are separated into two categories - services subject to a revenue cap form of price control and services subject to a weighted average price cap form of price control). Ergon Energy understands that an opening RAB must be provided for the assets used to provide services under each of the proposed forms of price control.

Asset class name

As mentioned in section 4 above, Ergon Energy seeks clarification of the relationship between the asset categories used by a DNSP in the RFM and those used by a DNSP in the PTRM. The PTRM Handbook notes that the number of asset classes used in the PTRM must be the same as that used in the RFM. Ergon Energy understood that the actual asset classes (not simply the number of classes) are required to be the same between the RFM and the PTRM.

Ergon Energy seeks confirmation that its interpretation is correct.

In addition, Ergon Energy suggests that the RFM handbook should provide:

- Clarity on what asset class groupings are acceptable to the AER; and
- Guidance for DNSPs transitioning into the new regulatory regime by indicating that existing asset classes used by jurisdictional regulators are acceptable asset categories to use in the RFM (i.e. assets may continue to be grouped according to function).

Standard life

Ergon Energy seeks confirmation that the standard life of an asset class identified in the PTRM is required to be the same as the standard life for that asset class identified in the RFM.

- **Forecast real capital expenditure and forecast real asset disposals**

The PTRM Handbook (page 5) notes that forecast real capital expenditure and forecast real asset disposals are assumed to be in end of year terms. However, the final paragraph on page 9 of the PTRM Handbook seems to indicate that capital expenditure is expressed in mid-year terms.

Ergon Energy seeks clarification as to whether forecast real capital expenditure and forecast real asset disposals in the PTRM are required to be provided in end of year or mid-year terms.