



Ref.:

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Mr Mike Buckley
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Dear Mr Buckley

TRANSMISSION PRICING METHODOLOGY GUIDELINES

Ergon Energy Corporation Limited (EECL) appreciates the opportunity to provide comment to the AER on the *Transmission Pricing Methodology Guidelines*. This submission is made by EECL in its capacity as a Distribution Network Service Provider. EECL's makes this submission based on the current arrangements in place in Queensland including Queensland Government Policy, the current Chapter 6 of the National Electricity Rules and the QCA's 2005 Revenue Determination for Energex and EECL.

EECL notes that the AER proposes that locational pricing structures be based on demand using either the higher of the contracted demand or historical demand at a connection point. Historical demand can be either actual maximum demand in the previous financial year or an average of demands recorded on 10 weekdays.

Background

Currently in Queensland, the Transmission Network Service Provider (TNSP) creates charges for approximately 100 connection points/customers. Distribution Network Service Providers (DNSPs) are required to pass through these 100 charges to anywhere between 600,000 to 1,500,000 customers as cost reflectively as possible. These charges are passed through from the DNSP to the Retailer to pass on to the customer.

Issues

Demand metering is currently not available to 99% (610,000) of Ergon Energy customers

The majority of EECL's customers have accumulation (or basic) meters and accordingly demand based charges are not appropriate. These customers account for 40% of total energy usage. EECL recovers 44% of our TUOS revenue from customers without demand metering. Therefore, Ergon Energy will need to "convert" demand based charges to energy based charges which will dilute the pricing signals of the transmission charges.

This will be further distorted by the "rolling up" of network charges by retailers. The majority of customers in EECL's distribution area are on the Queensland Government's notified

prices. Notified prices are a bundled tariff including generation costs, network charges (both transmission and distribution) and retail costs, so any pricing signals from transmission charges are diluted. This is further exacerbated in EECL's area where the notified prices are lower than the true cost of supply for many customers.

Pass through of TUOS charges on a cost reflective basis

The Queensland Competition Authority (current economic regulator for DNSPs in Queensland) requires that transmission prices be passed through to the end-use customer as cost reflectively as possible. Therefore, Ergon Energy would convert demand based charges to energy charges to be applied to the variable energy measurement for the majority of our customers.

Locational demand based on either contractual or historical data

As the level of demand is based on either contractual or historical data the locational charge will, in effect, become a fixed charge. As all charges from the TNSP will now be either fixed, or based on historical demand or historical energy, then all TNSP charges will effectively become 100% fixed. There will be no variable component and no risk to a TNSP of not recovering the total revenue cap.

Queensland is in the midst of an expansion phase due to both the sea change phenomenon and the mining resources boom. The use of only contracted or historical demand, and the delay with which new projects and expanding populations reflect in the historical figures can impose significant price shocks on customers.

The AER's proposed guidelines allow for forecast demand to only be used when historical data is unavailable, i.e. for new connection points. The majority of growth in Queensland is occurring at existing connection points and EECL has seen significant demand growth at a large number of existing connection points over the past 5 years. Therefore, EECL believes that forecast demand should be able to be used in circumstances other than where historical data is unavailable, such as a where historical data does not reflect future demand.

The impact of switching customers between different transmission connection points

EECL has four major towns where a meshed distribution network sits below the transmission network meaning that customers can be supplied from different transmission connection points depending on switching arrangements. The TNSP can switch loads between connection points, for example, to assist with repairs and/or augmentation to a connection point. This occurred where the TNSP switched load from one connection point to another for a three month period to facilitate a transformer change. The AER's proposed guidelines do not make allowance for adjustments to the recorded demands for switching. EECL believes that customers should not be penalised by circumstances outside of their control.

Impact of Demand based locational charges on payments to Embedded Generators (Distributed Generators)

Under the current National Electricity Rules, payments for avoided TUOS are calculated on TUOS usage charges applied to the Connection Point with and without the injected energy from the generator. Distributed generators are paid avoided TUOS based on the locational energy charge. This is because the locational energy charge is the only variable element that is "avoided" during the financial year.

If the locational charge is based on demand then any "avoided" charges become very difficult to measure. Connection point demands can vary for many reasons therefore coincident

demands will require analysing to determine the reason for the variation. The 30 minute metered data would need to be interrogated for both the connection point and generator to be able to identify if any demand was avoided due to the generator.

EECL notes the NERA recommendation to the MCE that the requirement for DNSPs to pay avoided TUOS be removed from the National Electricity Rules. However, until this recommendation is accepted by the MCE (and implemented), the impact of the AER's proposed guidelines remains an issue for Ergon Energy.

If you have any queries, please feel free to contact Des Popham on (07) 4727 6684.

Yours sincerely



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