



Ref.: TP/CP

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Mr Chris Pattas
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Dear Mr Pattas

Explanatory statement and proposed demand management incentive scheme for Energex, Ergon Energy and ETSA Utilities for the 2010-2015 regulatory control period

Thank you for the opportunity to comment on the AER's proposed demand management incentive scheme for Energex, Ergon Energy and ETSA Utilities for the 2010 – 2015 regulatory control period.

Ergon Energy understands that the demand management incentive scheme will take the form of an 'Innovation Allowance' which:

- is capped at an amount 'broadly' proportionate to the DNSP's annual revenue requirement in the previous regulatory period, (set at \$5 million for Ergon Energy in AER's Framework and Approach Paper – Application of Schemes, June 2008);
- is provided as a fixed amount of revenue at the start of each regulatory year of the regulatory period, distributed evenly across each year;
- can be spent at any time over the regulatory period;
- the DNSP must submit a formal application, in the form of a public report, to the AER at the time of its STPIS review; and
- is subject to an ex post assessment of expenditure, against set criteria, at the end of each regulatory year.

Ergon Energy further understands that a D-factor will not be applied.

Ergon Energy accepts the proposed Innovation Allowance as an appropriate mechanism for the next Regulatory Period (2010 – 2015). Ergon Energy also notes the AER's comments that the proposed DMIS is not intended as the primary source of recovery for demand management expenditure.

Please do not hesitate to contact Carmel Price, Manager Regulatory Affairs – Network Regulation on (07) 4121 9545 if you would like to discuss this matter further.

Yours sincerely

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

Tony Pfeiffer
General Manager Regulatory Affairs

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