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Dear Mr Roberts

**AUSTRALIAN ENERGY REGULATOR'S CONSULTATION ON "GAS AND ELECTRICITY
DISTRIBUTION REGULATORY GUIDELINES - SCOPING PAPER (MARCH 2006)"**

Ergon Energy is pleased to make this submission, which is available for publication, in its capacity as an electricity Distribution Network Service Provider in Queensland. This submission addresses the Australian Energy Regulator's (AER's) "Gas and Electricity Distribution Regulatory Guidelines – Scoping Paper (March 2006)" (the Scoping Paper) and is being made recognising the national reform agenda for greater regulatory consistency across electricity and gas markets, including across electricity transmission and distribution businesses.

In its submission to the Australian Energy Market Commission's *National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006* (the Draft Rules Proposal), Ergon Energy argued that the regulatory framework for electricity transmission was considerably more prescriptive and less flexible than desirable. Ergon Energy was particularly concerned about the precedent this could set for electricity distribution regulation. Ergon Energy considered the high degree of prescriptiveness proposed for electricity transmission regulation must call into question the need for additional regulatory guidelines to be developed and, more generally, the need for additional information requirements to be imposed by the AER with respect to electricity transmission and distribution. Alternatively, if there were to be less prescription than is currently proposed, it would be appropriate for development of regulatory guidelines.

Ergon Energy recognises the uncertainty about the final shape of the AEMC's Draft Rules Proposal and accepts that the AER needs to continue with the development of those regulatory guidelines that are least likely to be affected by any changes to the Rules. Given this uncertainty, Ergon Energy agrees with the AER that it may need to reconsider the scope of any regulatory guidelines developed should the final Rules drafting significantly differ from the Draft Rules Proposal.

Ergon Energy's views on the AER's Scoping Paper are set out below under the relevant chapter headings.

Chapter 4 – The Regulatory Framework

The AER's preliminary view is to develop electricity distribution regulatory guidelines and conduct a separate process for the development of guidelines for gas. The AER seeks comments from interested parties on whether such an approach is appropriate.

Ergon Energy supports separate processes for the development of regulatory guidelines for electricity and gas distribution given the greater uncertainty surrounding the development of the future regulatory framework to apply to gas distribution.

Chapter 4 – The Regulatory Framework

The AER presumes that the economic regulatory framework, in particular, the detailed elements of the building block approach outlined in the draft Chapter 6 Rules for transmission, are largely applicable to electricity distribution, with the exception of the service standards incentive regime and the form of regulation.

Therefore, in light of the draft Chapter 6 Rules, the AER, at this stage, does not propose to set out the economic regulatory framework – ie. the treatment of the building block elements for electricity distribution.

The AER's preliminary view is that electricity distribution guidelines should be developed. The scope for these guidelines will be largely influenced by the AEMC Chapter 6 review and the Gilbert and Tobin /NERA options paper.

The AER notes that the timetable proposed by the AEMC for the development of electricity distribution transmission regulatory guidelines by the AER may limit the AER's ability to finalise guidelines for both electricity distribution and transmission simultaneously. Therefore, at this stage, the AER proposes conducting a separate process for the development of regulatory guidelines for both electricity distribution and transmission.

The AER seeks comments from interested parties on whether such an approach is appropriate.

Ergon Energy supports the AER conducting separate processes for the development of regulatory guidelines for electricity distribution and transmission.

However, as discussed below, if the prescriptive nature of the current drafting is retained in the final Rules and flows through to electricity distribution, then Ergon Energy considers that some of the proposed regulatory guidelines to be developed will be unnecessary. This is not our preferred approach.

Chapter 5 – Distribution regulatory guidelines - process

The AER invites interested parties to comment on:

- **the scope of the AER's proposed distribution review; and**
- **the proposed process, sequencing and timeframes for the development of distribution regulatory guidelines.**

Subject to our comments below about the additional guidance to be provided by the AER with respect to cost allocation and broader information requirements, Ergon Energy considers the indicative timetable for the development of the regulatory guidelines, including the three stage consultation process, to be reasonable.

As previously noted, Ergon Energy is concerned about the level of prescriptiveness contained in the AEMC's Draft Rules Proposal (for transmission) and the precedent this could establish for electricity distribution.

Specifically, Ergon Energy considers that if the level of prescriptiveness currently proposed is retained, then the Cost Allocation Principles in the Draft Rules Proposal provide sufficient guidance for a TNSP to propose a Cost Allocation Methodology to the AER without the need for additional guidelines to be developed by the AER. Similarly, there would be no need to develop guidelines relating to the provision of information to be submitted with a Revenue Proposal given the prescriptive requirements of the Draft Rules Proposal. However, a lesser level of prescriptiveness, would appropriately give rise to the need for guidelines.

In principle, Ergon Energy is supportive of the AER developing data templates in those areas where the TNSP/DNSP is required to provide information to the AER in order to achieve some consistency in the presentation/format of that information. However, these data templates should not require any additional information be provided beyond that foreshadowed by the AEMC in its Draft Rules Proposal, which, as noted above, Ergon Energy considers to be excessive.

With respect to the other regulatory guidelines proposed to be developed in Stage 2, Ergon Energy supports the AER developing regulatory guidelines with respect to the Post Tax Revenue Model, the asset valuation roll forward model and an incentive mechanism for opex.

Ergon Energy supports the third stage of AER's consultation process covering service standards, tariff setting, connection and capital contributions, and ring-fencing.

Chapter 6 – Summary and request for submissions

The AER seeks comments on the following matters:

- **whether its proposed approach, as outlined above, is appropriate**
- **the scope of the proposed distribution review as outlined in Chapter 5; and**
- **the proposed process and timeframes for the development of distribution regulatory guidelines as outlined in Chapter 5 of this scoping paper.**

In conclusion, Ergon Energy is concerned about the considerable uncertainty surrounding the regulatory framework to be allied to electricity distribution and considers this uncertainty should temper the AER's work program.

Further, if the highly prescriptive approach proposed by the AEMC is adopted and extended to electricity distribution (an outcome that Ergon Energy does not support), then Ergon Energy considers that it would be unnecessary for the AER to develop regulatory guidelines with respect to a cost allocation methodology and information requirements. Instead our preference is for a reduced level of prescriptiveness, and development of guidelines.

I would be pleased to discuss any of the matters raised in this submission.

Yours faithfully



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