18 June 2015

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Email: AERInquiry@aer.gov.au

Dear Sir/Madam,

Submission: Preliminary Decision Ergon Energy determination 2015-16 to 2019-20

Lendlease has a major residential and community development planned for Rocky Springs south of Townsville

Stage 1 of Rocky Springs will require connection from the existing Ergon Energy Corporation Limited (EECL) distribution system via a single feeder to an existing substation.

Lendlease accepts the requirements for the developer to fund the development of the distribution system on the development site as a reasonable mechanism to allocate the financial risk of stranded assets or over expenditure on networks. The cost of the network from the existing EECL system to Rocky Springs is also carried by the developer.

Stages 2 and 3 of the Rocky Springs development require the establishment of a transmission connection point at the site. For these stages of the development the residents (via the developer) will have paid for all the distribution system supplying them. This is unusual supply arrangement for a residential / community development and has the potential for distorted economic outcomes. The classification of these services as Alternate Control Services (ACS) means that the households who establish at Rocky Springs will have paid for all the electricity distribution assets that supply their homes but the prices these same households pay for the use of the distribution system will be the same as other households in other parts of the Queensland community who have paid for none of the assets that connect them. The standard DuoS charges that will be paid by Rocky Springs households contain a significant component of costs for the shared distribution system however the households in Stages 2 and 3 will have already paid for all the distribution assets supplying them.

This misalignment between the payment by households (via developers) of all the connection costs (particularly upstream) and the standard service pricing has the potential for very uneconomic allocation of resources between the existing network users and new users.

This misalignment is a major risk when there are significant upstream costs incurred.

Lendlease urges the AER to ensure that the distribution businesses like EECL have the scope to adjust the allocation of costs to classes of customers under the ACS classification – particularly where the ongoing use of the system will be as a SCS to households. The regulatory guidelines should allow EECL to adjust the amounts to be paid under the ACS to account for the misalignment between costs paid as an ACS for connection and the ongoing charges as a SCS.

Lendlease acknowledges that this issue could be addressed through more site specific pricing for consumers under the SCS. However it is considered that the additional complexity of different prices for the same customers groups (consumers) within the EECL region will create more confusion than addressing the issue in the allocation of costs under the ACS regime.

Yours faithfully

Simon Walker
Regional Development Manager
Communities