

From: Jane Errey [mailto:jane@spaconsulting.com.au]
Sent: Wednesday, 14 May 2008 12:42 PM
To: AER Inquiry
Subject: Submission on proposed electricity distribution models

Dear AER

We are a consulting engineering practice specialising in the design of contestable Customer Initiated Capital Works (CICW) in regional Queensland. CICW in regional Queensland includes contestable works as outlined in the Ergon Energy Developer's Handbook.

See http://www.ergon.com.au/network_info/Your_Connection/Developers_Toolkit.asp for general information and http://www.ergon.com.au/network_info/Your_Connection/downloads/URD%20DDC%20Developer%20Handbook%20Ver1%20170110.pdf for the Developer's Handbook.

The work we undertake at present is within Ergon Energy's distribution area. Presently the market is constrained by Ergon Energy to design and construction of urban residential underground subdivisions. Our experience and therefore our submission is based entirely upon our work with Ergon Energy, but the comments may equally apply to the other DNSPs.

We have reviewed the proposed electricity distribution models and submit the following comment:

Efficiency Benefit Sharing Scheme:

In the discussion and calculation tables regarding CAPEX, the AER do not appear to have acknowledged that a significant proportion of the CAPEX funds come directly from developers. In regional Queensland in excess of 6000 lots are developed each year. The costs of underground electrification to a subdivision is around \$7000 per lot, a cost which is entirely borne by the developer (and then passed on to the home purchaser). In regional Queensland, around 90% of the cost is funded by the developer paying to contractors for installation, and the rest, 10% is paid directly to the DNSP for headworks and non-contestable fees. On completion of the works the asset is transferred to the DNSP and becomes part of their network.

Cost Allocation Guidelines:

We agree with the AER that the Cost Allocation Guidelines that DNSPs should provide transparency in the cost information provided to developers. The current situation, where DNSPs decide what is contestable work and what is to be undertaken internally is not transparent, nor is the calculation process for works that the DNSP choose to carry out themselves for the developer. The design and construction of all capital work funded by developers or other customers should be open to competition; however this needs to be gradually rolled out because the DNSPs are not presently geared accordingly. At present there is no clear regulatory framework for the work we undertake, and therefore it should become an area that is explicitly regulated by AER once the DNSPs fall under the AER regulatory umbrella. The current power imbalance leads to abuse, with no independent arbiter available to resolve or mediate on issues. The AER should take on the role of independent arbiter.

Service Target Incentive Scheme:

The proposed scheme mentions new connections as part of the performance incentive scheme parameters and we support this. However, inbuilt into this should be an understanding that DNSPs currently audit work carried out by entities such as consultants and contractors carrying out design and construction work. Delays in processing the audits, or inefficiencies such as 100% auditing with no reference to existing quality systems causes delays in new connections and should be also measured to ensure targets are met.

Overall Comments:

The current lack of a clear regulatory framework leads to a number of problems relating to the DNSPs which, as stated above, with no independent arbiter, leaves the consultants and contractors in a position of forced acquiescence. These problems are:

- Ringfencing within DNSPs is not effective. The DNSP competes with consultants and contractors for contestable work. In doing so, they have access to information and systems unavailable to competitors, such as ourselves.
- Monopolistic practices constrain the extent of competition. Ergon Energy (and possibly other DNSPs) preclude the following from being contestable:
 - Headworks design and construction
 - Overhead line design and construction
 - Industrial and commercial subdivisions design and construction
- DNSPs impose requirements upon developers that they do not adopt themselves. Examples are:
 - All consultants' work must be signed off by a certified engineer, but Ergon Energy (and possibly other DNSPs) do not have that requirement for work to be carried out internally
 - All consultants and contractors must have third party accredited ISO9000 certification, but Ergon Energy (and possibly other DNSPs) do not have any certified quality system in place
 - All designs and installations must be audited for acceptance by Ergon Energy (and possibly other DNSPs), but the standards to which the design and construction must adhere to change from place to place within Ergon, and many rules are not documented.

In the change to full regulation of DNSPs, we urge the AER to work with consultants and contractors to assist in mediation and resolution of issues as part of the regulatory role.

While we acknowledge that most submissions received by the AER will be from DNSPs, the AER also needs to be aware that there are others working in this sector funded by the external private sector.

Yours faithfully

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