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20 March 2006

Mr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box 166
AUSTRALIA SQUARE NSW 1215



Dear Mr Tamblyn

Transmission Revenue: Rule Proposal Report

Ergon Energy Pty Ltd (Ergon Energy) appreciates the opportunity provided by the Australian Energy Market Commission (AEMC) to comment on the proposed *National Electricity Amendment (Economic Regulation of Transmission Services) Rule*, as part of the overall *Review of the Electricity Transmission Revenue and Pricing Rules*. This submission is made by Ergon Energy in its capacity as an electricity retailer in the National Electricity Market (NEM).

Ergon Energy supports the development of a framework for the regulation of transmission revenue that ensures the reliable and secure delivery of lower-cost energy to end-users. Timely and efficient investment in transmission is an issue of particular importance to Ergon Energy given the dispersed nature of our customer base and the unique geographic characteristics of the Queensland network.

Each of the issues addressed in our submission are in number order as detailed in the *Transmission Revenue: Rule Proposal Report*.

6.3 Pass Through Arrangements

In December 2005, the Australian Energy Regulator (AER) issued for comment the *Pass-through and Revenue-cap Re-openers: Position Paper*. The following comments are consistent with those raised by Ergon Energy in its submission to the AER on the position paper.

Ergon Energy supports the inclusion of a pass-through regime to enable a transmission network service provider's (TNSP's) revenue allowance to be adjusted within a regulatory period for defined material exogenous events. By defining both the overarching conditions for an application and pass-through events this should ensure applications are made in unforeseen and/or exceptional circumstances, not as a result of poor management. For example, by requiring that the event affects the TNSP, not the market generally, will prevent against an increased revenue allowance being received by the TNSP. That is, through both the Weighted Average Cost of Capital and a pass-through application. Ergon Energy supports the AEMC proposal to remove the 'Other Events' category in preference for new category 'Network (Grid) Support'.

It is acknowledged that exogenous events could result in both positive and negative revenue implications for the TNSP. Given a TNSP may not be incentivised to initiate a pass-through application, where an exogenous event results in a cost reduction, provision should also be made for the AER to initiate a pass-through application.

Ergon Energy supports the introduction of a materiality threshold, of 1 per cent of the TNSP's average maximum allowed revenue, as it will ensure only material events are considered and that regulatory costs associated with pass-through events are minimised. This arrangement will also incentivise TNSP's to efficiently manage risks (exogenous events) of a 'minor' nature which do not meet the threshold. It is noted the AEMC proposal excludes 'Network (Grid) Support' from the materiality threshold. Ergon Energy is generally supportive of this approach contingent on all 'Network (Grid) Support' being subject to an appropriate regulatory assessment. Where all decisions to source 'Network (Grid) Support' are subjected to an economic cost-benefit test as outlined in the Regulatory Test and that grid support is procured via a transparent, consultative and competitive process.

7.1 Standards of Service

Ergon Energy is supportive of the proposed Rule and welcomes the requirement for the AER to develop and publish an incentive scheme by 31 December 2006.

The development of incentives for TNSPs has been a longstanding issue for industry. Over the past four years industry has participated in both informal and formal working groups established to discuss the development of transmission service standards. As noted in our previous submission the development of an effective incentive scheme will necessitate a significant body of work to establish a common set of data against which the TNSPs performance can be measured and periodically reported. Given the significant amount of work that has already been undertaken in this area, Ergon Energy is confident an incentive scheme can be developed in the time allotted.

Please feel free to contact me on (07) 3228 7536 should you wish to discuss any aspect of Ergon Energy's submission.

Yours sincerely

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