

30 April 2007



Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Sir/Madam

Electricity Transmission Network Service Providers Guidelines

ENERGEX appreciates the opportunity to comment on AER's Electricity Transmission Network Service Providers (TNSPs) Guidelines. ENERGEX has reviewed and provided comment on these guidelines on the basis that the feedback will be used during the development of the Distribution Guidelines.

ENERGEX understands that the AER has an overall objective of achieving regulatory consistency across the energy sector (transmission and distribution). ENERGEX is concerned that strict adherence to consistency will discount the significant differences in the operating environments of a distribution business (DNSPs) compared to a transmission business. In addition, there are significant environmental and operational differences between distribution businesses, for example the form of price control, the level of customer demand, and overall growth activity. ENERGEX recommends that the AER be cognisant of these differences in the development of national guidelines for the DNSPs in the future. Of particular concern is the reduced level of investment certainty within the distribution network due to factors outside of the control of the DNSP's. This submission outlines ENERGEX's view from a DNSP perspective and as such does not address all aspects of the draft Guidelines.

All models and indicators should be as close to current market conditions as possible. For example, the Post Tax Revenue Model calculates a Maximum Annual Revenue Requirement that delivers a return to the network owner equivalent to the estimated costs of capital for the business. On this basis, the model is appropriate for its purpose. However, the inflation assumptions used in the model are very simplistic and are unlikely to allow for actual cost changes that must be met by regulated network businesses. It is recommended that the AER consider the use of more targeted indices that reflect the cost pressures on the range of inputs faced by the business.

Business practices which have proven to be suitable in the regulatory market should be maintained under the proposed guidelines, for example, ENERGEX supports the AER's approach of calculating return of capital (depreciation) on an as commissioned basis.

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Enquiries
Sue Lee
Telephone
(07) 3407 4386
Facsimile
(07) 3407 4608
Email
suelee@energex.com.au

Corporate Office
150 Charlotte Street
Brisbane Qld 4000
GPO Box 1461
Brisbane Qld 4001
Telephone (07) 3407 4000
Facsimile (07) 3407 4609
www.energex.com.au

ENERGEX Limited
ABN 40 078 849 055

The proposed Transmission Guidelines and associated pro forma templates need to be flexible enough to allow for differences in business operations across the NEM. The requirement for both historic and forecast information as set out in the AER's TNSP's Guidelines has the potential to increase the data requirements and costs to the businesses. Due to the broader range and volume of data within the distribution sector, the cost impacts of the AER's Guidelines may be significant. Consistent with other aspects of the Rules, the Guidelines must take account of the benefits and costs of the data and reporting requirements.

As set out previously, ENERGEX has not provided a detailed submission to the draft Transmission Guidelines on the basis that the Distribution sector can expect a separate consultation process around the Distribution Guidelines.

ENERGEX submits that in finalising the Transmission Guidelines and preparing the draft Distribution Guidelines the AER should recognise the diversity of operations across the distribution sector and between the transmission and distribution business.

Yours sincerely



Kevin Kehl
Director Revenue Strategy