

Queensland
Government

Department of
Innovation and Information
Economy

Office of Energy

26 MAY 2003

Mr Gary Henry
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Henry

**Re: Draft Decision – Form of Regulation of Electricity
Distribution to commence from 1 July 2005**

In response to your call for submissions on the abovementioned draft decision, the Office of Energy takes this opportunity to express support for the Queensland Competition Authority's stance.

While the Office of Energy supports the implementation of a form of regulation that most closely replicates efficient market signals, is transparent and has a low compliance burden, one clear priority for regulation of natural monopoly infrastructure is to reduce costs while maintaining service quality. Revenue cap regulation is well equipped to provide distributors with the incentive to reduce costs, because this is the only way for the regulated entity to improve profits. Cost efficiencies realised are passed to customers in subsequent periods.

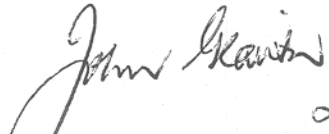
As duly noted by the Authority, to this date, there are limited results from the present regulatory determination on which to assess its appropriateness. Therefore, the Office of Energy concurs that it is premature to discount the ongoing effectiveness of the revenue cap approach of the current determination, at this early stage. The Office of Energy also considers that the relative newness of the regulatory regime discounts the belief that the current 'building block' approach to setting revenue caps could be discarded for some type of 'cost de-linked' approach.

This Office understands that the Authority has been developing a regime of service quality assurance, which is expected to be implemented in the next regulatory period. This will provide a necessary discipline that is lacking from the present determination and represent a significant addition to the regulatory environment. While a service quality regime is not linked to the form of regulation, it is preferable that any significant additional component to a determination, be introduced within a relatively static, well-understood regime.

Level 8 100 George Street Brisbane
PO Box 187 Brisbane Albert Street
Queensland 4002 Australia
Telephone +61 7 3225 8207
Facsimile +61 7 3224 2526
Website www.energy.qld.gov.au

Should you have any queries on the Office of Energy's views on this matter, please do not hesitate to contact my office.

Yours sincerely



26/5/13

Dr John Glaister
A/Executive Director
Office of Energy