



## **Amendment**

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# **Electricity Distribution: Determination of Prescribed Services**

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*June 2007*

## SUBMISSIONS

The Queensland Competition Authority considers public involvement to be an important element of its decision making processes. It therefore invites submissions from interested parties on its amendment to the Authority's *Electricity Distribution: Determination of Prescribed Services* (2000).

To facilitate the publication of submissions on the QCA's website, it is preferred if submissions are provided electronically by disk or email. Where this is not possible, written submissions are acceptable and should be sent to the address below. **Submissions, comments or inquiries regarding this paper should be directed to:**

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Submissions are due by no later than 27 July 2007.

### Confidentiality

In the interests of transparency and to promote informed discussion, the Authority would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. Again, it would also be appreciated if each version (that is, the complete version and another with confidential information removed) could be provided electronically (whether or not with a printed copy). Where it is unclear why a submission has been marked 'confidential', the status of the submission will be discussed with the person making the submission.

While the Authority will endeavor to identify and protect material claimed as confidential as well as exempt documents (within the meaning of the *Freedom of Information (FOI) Act 1989*), it cannot guarantee that submissions will not be made publicly available. As stated in s187 of the *Queensland Competition Authority Act 1997*, the Authority must take all reasonable steps to ensure the information is not disclosed without the person's consent, provided the Authority is satisfied that the person's belief is justified and that the disclosure of the information would not be in the public interest.

### Public access to submissions

Subject to the above, submissions will normally be made available for public inspection at the Brisbane office of the Authority, or on its website at [www.qca.org.au](http://www.qca.org.au).

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## 1. BACKGROUND

The Authority's *Electricity Distribution: Determination of Prescribed Services* (September 2000) classified all services performed by a distribution network service provider (DNSP) that are associated with, or ancillary to, access to the network for the supply of electricity as prescribed services.

The provision of prescribed services underpins the build-up of costs upon which the DNSPs' revenue caps were determined in 2001 and again in 2005.

The Authority's 2005 Final Determination therefore included costs associated with the provision of all prescribed services. The majority of these costs were associated with the provision of services via the distribution network (Distribution Use Of System (DUOS) services). The remaining costs related to the provision of services ancillary to the main network services (non-DUOS services).

In 2005, these non-DUOS services accounted for less than 5 per cent of total services revenue.

Under the revenue cap form of regulation applied by the Authority to electricity distributors, revenue raised in any year above (or below) the set revenue cap must be returned to (recovered from) customers in subsequent years. In this way, a DNSP is assured of raising revenue equal to the revenue cap, providing a degree of certainty to both distributors and customers during the regulatory period.

As non-DUOS revenue was included within the revenue cap, any unanticipated and significant change in the amount of revenue received for these services will impact on DUOS prices in order to maintain the revenue cap at its approved level.

While non-DUOS revenue remained reasonably stable and consistent with the forecast adopted at the start of the revenue period (as has generally been the case), there has been no cause for concern.

However, with the sale of the retail arms of Energex and (much of) Egron Energy, combined with the introduction of competition in the retail energy market, it is anticipated that there will be a significant increase in the demand for non-DUOS services provided by the distributors and hence non-DUOS revenue is expected to rise sharply. As a result, under the current arrangements, DUOS prices would have to be held artificially low in order to balance the unexpectedly higher level of non-DUOS revenue.

In effect, non-DUOS services would be cross-subsidising DUOS services. This would be an unintended (and undesirable) outcome of the Authority's decision to apply a fixed revenue cap form of regulation and the introduction of FRC.

The Authority's *Electricity Distribution: Determination of Prescribed Services* (September 2000) provides a framework whereby certain distribution services can be excluded from regulation under the fixed revenue cap form of regulation. However, this provision requires that the service to be excluded can be shown to be available within a competitive market segment and not solely provided by the monopoly service provider. While this is an important criterion for determining whether a particular service should be treated as an excluded service, it is by no means the only criterion that could be applied.

In its *Prescribed Services* Determination, the Authority noted (at Appendix B) a range of services identified in the National Electricity Code (subsequently amended to the National Electricity Rules) as being activities the jurisdictional regulator might define as excluded services. This list includes many activities that form the non-DUOS services now identified by the distributors where demand is likely to substantially increase. However, the provision the Authority included in its Determination to allow for services to be excluded from coverage under the revenue cap form of regulation is not broad enough to allow many of these non-DUOS services to actually be excluded.

In other jurisdictions, similar non-DUOS services are already treated as excluded services or otherwise subjected to a lighter form of regulation than DUOS services. Given the potential and unintended impact of increased revenue from non-DUOS services on efficient pricing for DUOS services, it is proposed that an amendment be made to the *Electricity Distribution: Determination of Prescribed Services* (September 2000) to include broader criteria for excluding services, consistent with the intention of the National Electricity Rules. The proposed amendments would provide the Authority with an option to exclude certain services from the fixed revenue cap form of regulation and apply an alternative and lighter-handed form of regulation to these services.

As responsibility for the regulation of electricity distribution services is scheduled to pass from the Authority to the Australian Energy Regulator (AER) in the near future, the Authority does not propose to undertake an extensive review of its prescribed service determination at this time. The AER will no doubt review the determination of prescribed services once it assumes this responsibility. As an interim measure, the Authority proposes to make the minimum amendment to its current prescribed services determination consistent with addressing this particular issue in a manner consistent with the National Electricity Rules.

The Authority's proposed amendments are detailed in Section 2.

## 2. PROPOSED AMENDMENTS

The Authority's proposes to make the following amendments to its *Electricity Distribution: Determination of Prescribed Services* (September 2000).

Section 3 (p.8):

Following the second bullet point, insert the following text:

- Where the Authority deems a service to be excluded having regard to the criteria set out in section 6.2.4(a) of the National Electricity Rules.

Section 5 (p.10):

At the end of the existing text, insert the following text:

Notwithstanding the above, where a contestable market cannot be demonstrated, the Authority may deem a service to be excluded having regard to the criteria set out in section 6.2.4(a) of the National Electricity Rules and may choose to apply a form of "light handed" regulation to these services.