

Ref.:

23 October 2003

Mr EJ Hall  
Chief Executive  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Dear Mr Hall

### **Electricity Distribution – Service Quality Incentive Regime**

We welcome the opportunity to comment on the Service Quality Incentive Regime proposed by Meyrick and Associates.

The paper recognises that further work on estimating the value of service to customers in Queensland is required. Crucial to the success of such a scheme is the dollar value of the incentives and penalties to be applied. This value affects the economic efficiency of such a scheme. If the value is too high, there is a risk that prices will rise beyond what customers are willing to pay for, if set too low, service quality will remain at current levels. Ergon Energy has similar concerns to those outlined in the paper, and has consequently commenced undertaking a significant piece of work to identify the value customers place on service in Ergon Energy's territory. We would welcome the Authority's involvement in this process.

We have not been able to fully assess the effects of the proposed scheme due to the following unknowns:

- It is unclear how the incentive reward/penalty is calculated from the mix of measures that are proposed. It is also unclear the length of time the measures are to apply for and how they interact with the overs and unders process and side constraints. We have provided a hypothetical set of measures (attached) and we would like to meet with you ascertain how the reward/penalties may be calculated.
- It is unclear if the rewards are meant to fund reliability capex/opex expenditure or to be purely an incentive payment on top of allowed reliability expenditure. As raised in the Authority's issues paper, the relationship of the incentive regime to allowance in the capital base is an issue. The adequacy of the scheme in terms of these two options depends on whether the current levels of service are acceptable to customers generally. The service quality scheme may fund incremental improvement from an established base level of service that is largely acceptable, but may not provide sufficient funds to move service levels to a more acceptable base level.

Issues raised in the second dot point are also raised in the Authority's Issues paper, and it is our intention to address them more fully in our response to this paper. Before doing so, however, we would like to meet with you to finalise the queries that we have.

We will not be able to fully consider the proposed scheme until after the survey work is completed and the targeted base level of service required by customers is revealed.

Yours sincerely

Tony Pfeiffer  
Manager Regulation Networks

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