



27 OCT 2003

Treasury

Our Reference: TRO-01656

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



Dear Mr ^{John}Hall

Thank you for the copy of the Meyrick and Associates/Pacific Economics Group draft report on the *Development of an Electricity Distribution Service Quality Regime to take effect in Future Regulatory Periods*.

The development of a workable service quality incentive regime is a significant tool to ensure Queensland's distribution entities provide regulated services which meet appropriate industry-wide quality service standards. A well structured incentive regime will encourage Energex and Ergon Energy to operate in an efficient and effective manner and provide an appropriate level of service quality. It will also assist the Queensland Competition Authority (QCA) in its annual assessment of the financial performance of Energex and Ergon Energy by allowing the QCA to analyse the relationship between expenditure levels and any changes in service quality standards.

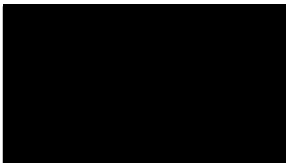
I note the QCA's concerns regarding customer willingness to pay for improvements in reliability or quality of service. Given the potential pricing implications associated with the introduction of an incentive regime (e.g. Victoria experienced a two percent increase in final electricity prices when an incentive regime was introduced), I believe there is merit in conducting a survey to estimate the threshold service level above which the majority of Queensland customers are satisfied. I would appreciate, however, your discussing aspects of any proposed survey, such as timing and potential consultants, with David Smith on telephone 32244646.

There are also significant benefits associated with an incentive regime which utilises measures and data collection methodologies that are consistent for both distributors. This consistency would allow for the collection of uniform performance data over time and would potentially enable performance comparisons across the two distributors in areas such as call centre performance.

A key issue for the QCA to resolve is the determination of appropriate caps for annual reward and penalties amounts. These caps need to appropriately balance the need to provide sufficient potential for the distributors to be rewarded or penalised for changes in service quality with the impact of such payments on customers. This same significance also applies to the setting of appropriate 'dead bands' around performance benchmarks that provides a balance between short-term fluctuations and sustained changes in performance.

Thank you for providing Treasury with the opportunity to provide input into the QCA's consideration of the development of a service quality regime for electricity distribution. If you have any further queries or require further information, please contact Ms Tanya Boyle on (07) 3234 1277.

Yours sincerely



(G. Bradley)
Under Treasurer