

**ENERGEX's response
to the QCA's**

**Review of Electricity Distribution Network
Minimum Service Standards and
Guaranteed Service Levels
to Apply in Queensland from 1 July 2010**

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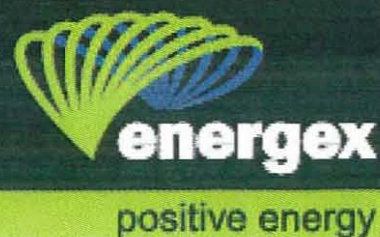


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1 Considerations in assessing ENERGEX's position

Factors that ENERGEX has considered in responding to the Queensland Competition Authority (QCA) review of Minimum Service Standards (MSS) and Guaranteed Service Levels (GSL) are outlined below.

1.1 Customer Willingness to Pay

ENERGEX has undertaken preliminary research into customer preferences. Initial indications are that customers in South-East Queensland do not necessarily see the value in paying for further improvements in reliability of electricity supply. These findings appear to be consistent with some of the findings in other jurisdictions outlined in the QCA Discussion Paper. Hence, ENERGEX considers that it would be prudent to incorporate some assessment of willingness to pay in the development of future reliability improvement targets.

1.2 Impact on preparation of 2010-15 Regulatory Proposal

Certainty around MSS targets is an important aspect for ENERGEX's upcoming Regulatory Proposal for 2010-2015 (to be submitted to the AER by 31 May 2009). In developing the capital and operating expenditure forecasts for the next regulatory period, allocation of funding and resources to meet MSS must be balanced with other priorities to meet demand and security requirements and customer connections. Given the time frame associated with development of this proposal, MSS and GSL information needs to be available by December 2008. The indicative targets established in the review undertaken by the Department of Mines and Energy (DME) in 2007 have been applied in the initial stages of ENERGEX's proposal development.

1.3 Alignment with STPIS

The national STPIS is intended to provide an incentive for a distribution network service provider (DNSP) to maintain or improve service by providing penalties or rewards for diminished or improved service. In June 2008, the AER published its preliminary position for application of this scheme to ENERGEX and Ergon Energy. In its Discussion Paper, the QCA indicated that when the MSS was introduced in Queensland, it was considered that the MSS would provide distributors with incentive to improve service quality performance. Both the AER and the QCA have acknowledged the interaction between the two schemes.

It is unclear how these schemes will interact and how MSS and STPIS targets operate concurrently. ENERGEX does not consider that sufficient clarity could be provided within the time constraints of this current review if major changes were to be considered by QCA. Further, it is unclear if in the future, these schemes would evolve into a single national scheme with appropriate transitional considerations. A co-ordinated approach between the QCA and AER will be required to clarify and optimise the benefits of these schemes and provide ENERGEX clear targets for factoring into its future capital and operating forecasts.

2 Proposed changes for MSS

ENERGEX proposes only one change to the MSS indicative targets, being for Urban SAIDI. There are no additional parameters proposed. Outlined below is the rationale and suggested changes as well as reasons for maintaining all other indicative targets.

2.1 Urban - SAIDI and SAIFI

ENERGEX's high investment in the urban network has achieved some good results for reliability. ENERGEX has performed well against its urban targets over the last regulatory period, although interpretation of this strong performance should be moderated in the light of the recent series of mild storm seasons.

Given its current funding priorities, managing the risk of not meeting the MSS target (probability of exceedance) and the need to deliver a balanced outcome for customers, ENERGEX proposes that the rate of improvement of indicative urban SAIDI targets should be lowered. A comparison of New South Wales DNSPs indicates that ENERGEX's urban SAIDI indicative rate of improvement is more onerous.

Hence, ENERGEX proposes that the urban SAIDI targets for the next regulatory period be reduced by 2 minutes per annum (in lieu of the average 5 minutes in the indicative targets). The target for 2010-11 would be 108 minutes improving to 100 minutes in 2014-15. (It should be noted that CAIDI "Interpretative Targets" would have an associated change, maintaining 83 minutes for 2010-11 to 1012-13 and reducing to 82 minutes for the remaining two years.)

No change to the indicative urban SAIFI targets would balance the reduced focus on SAIDI. ENERGEX considers that urban customers would value SAIFI improvements over SAIDI improvements.

2.2 CBD - SAIDI and SAIFI

No change is proposed to the CBD MSS indicative targets for 2010-11 to 2014-15 (for SAIDI and SAIFI). ENERGEX has achieved significant CBD reliability performance improvements against MSS over the past reporting period and has performed well against its MSS targets for both the duration (SAIDI) and the frequency (SAIFI). In its 2007 review, DME acknowledged the "probability of exceedance" argument and the high potential for variable impacts on CBD performance and ENERGEX considers that this position remains relevant for the next regulatory period.

2.3 Rural SAIDI and SAIFI

No change is proposed to the rural MSS indicative targets for 2010-11 to 2014-15 (for SAIDI and SAIFI). Performance on the rural network has improved, but is only marginally favourable to MSS. ENERGEX recognises that rural performance requires a continued focus and investment to improve performance against MSS. Preliminary customer research indicates that rural customer expectations of reliability are aligned with urban customer expectations. The cost to improve short rural network is higher per SAIDI and SAIFI unit improvements on a system basis than the urban network.

3 Proposed changes for GSL

ENERGEX has maintained a reasonable record of GSL performance in the first two years of its application. In 2007-08, the challenges of commencing operations in a full FRC environment, contributed to increased GSL penalties. It is anticipated that these penalty payments will stabilise as associated systems and processes mature between the Retailers and ENERGEX.

ENERGEX proposes a minimalist review of GSL arrangements with no changes to the current performance parameters or targets. No additional parameters are proposed. The GSL arrangements have only been in place for three financial years. ENERGEX considers that the current GSLs provide an appropriate representation of reliability and customer service aspects and that this range does not need to be broadened at this time.

However, it is proposed that the impacts of inflation on penalties be considered. ENERGEX proposes that the GSL penalty amount be adjusted by CPI to keep the value consistent in real terms with 2005. It is proposed that a single rate for each penalty payment be fixed at the beginning of the first year and that it apply for the five years of the regulatory period. This approach would provide certainty about the quantum of the penalty payments across the period to both customers and ENERGEX. It is further proposed that these adjustments be rounded up to the nearest dollar for administrative simplicity.