



**Submission  
to the  
Queensland Competition Authority**

**Network Pricing Principles**

**ENERGEN**

**August 2000**

## 1. INTRODUCTION

This Paper is a submission to the Queensland Competition Authority (QCA) in response to its Issues Paper "Network Pricing Principles" dated June 2000.

This submission seeks to address each of the items raised by the QCA in their Issues Paper and to recommend options to address those items. Other matters not included in the Issues Paper but considered important by ENERGEX are also outlined in this submission.

This submission is a joint submission made by ENERGEX Limited and ENERGEX Retail Pty Ltd. The name ENERGEX will be used throughout this paper as a reference to this group.

Comments made in this paper may be made public as part of the normal consultation process by QCA.

ENERGEX submits that Part E of Chapter 6 of the Code be adopted by the QCA as the mechanism for the regulation of network prices in Queensland from 19 December 2000.

ENERGEX submits that a pricing methodology be developed for application by the Network Service Providers which incorporates the following principal aspects:

- economically efficient network prices in the range between incremental and stand alone costs,
- locational network prices for appropriate customers through specific network prices,
- economic signalling through the adoption of fixed price components reflective of incremental costs, and
- the appropriate treatment of common costs through non-distortionary pricing outcomes.

ENERGEX submits that the implementation of the network pricing methodology should be through the submission of the "pricing principles statement" by the Distribution Network Service Provider at the beginning of each regulatory control period. Following this the Distribution Network Service Providers should be able to publish pricing schedules based on a cost allocation and pricing methodology approved by the QCA.

## 2. OBJECTIVES OF NETWORK PRICING

*The QCA in its Issues Paper seeks comments on:*

- *whether the listed objectives provide a sufficient basis upon which to assess the need for regulatory action regarding the structure of network prices?*
- *what relative weighting should be given to the various objectives, especially:*
  - *what role should equity play relative to economic efficiency?*
  - *what emphasis should be given to the role of locational signals in pricing?*
- *whether the requirement that the pricing regime should not discriminate between users is a sufficient allowance for equity?*
- *what emphasis should be given to the role of incentives in pricing?*

### 2.1 Objectives of a Distribution Pricing Regime

The Code lists a number of distribution network pricing principles or objectives in Schedule 6.7. These principles or objectives include:

1. cost reflective pricing
2. non-discriminatory pricing of network services
3. compatibility with market trading arrangements
4. network prices for economically efficient investments
5. network interconnectors managed to reduce the barrier to a national market
6. published and transparent network prices, and
7. transition arrangements are required by governments.

As outlined in the QCA Issues Paper, NECA is of the view that it is difficult to adopt all of the Code principles and objectives in their entirety. NECA therefore distilled the Code requirements and intentions into seven core objectives, namely:

1. efficient use of the network
2. efficient operation and maintenance of the network
3. efficient investment in the network
4. efficient location of generation and demand
5. promotion of upstream and downstream competition
6. price stability, and
7. equity

Clause 6.10.2 of the Code also sets out a number of other objectives including the requirement for:

1. reasonable certainty and consistency over time
2. reasonable and well defined regulatory discretion which permits an acceptable balancing of the interests of Distribution Network Owners, Distribution Network Users and the public interest, and
3. an efficient and cost effective regulatory environment.

Taking account of these various sets of objectives, all arising from the Code or from Code Participants (via the Transmission and Distribution Pricing Review), the objectives listed in the Issues Paper are representative of the overall intention. The addition of a principle or objective covering the requirement for an efficient and cost-effective regulatory environment would complement and finalise the list.

ENERGEX submits that it would be appropriate to measure any proposed distribution network pricing methodology against the following eight principles and objectives.

1. promotion of efficient use of the network
2. promotion of efficient operation and maintenance of the network
3. promotion of efficient network investment
4. signalling of efficient location of generation and demand
5. promotion or support of upstream and downstream competition
6. maintenance of price stability and certainty
7. equity through acceptable balance of the owners and users of the distribution network, and
8. ensuring an efficient and cost-effective regulatory environment.

## 2.2 Prioritisation of Objectives

The eight principles or objectives described in the previous section may conflict in certain circumstances. It is therefore important to determine what key requirements best describe the overarching intentions and philosophy.

An explicit example of conflict of objectives is the signalling of efficient location of demand and the requirement for equity among users. The existence of uniform statewide franchise tariff arrangements in Queensland may create an expectation of a continuation of the same arrangement into the regulated components of the competitive electricity environment. Meanwhile the principle of efficient location of generation and demand requires the signalling of locational costs of supply. This locational pricing approach is also supported by companies such as INCITEC (Submission to the QCA dated July 2000).

In relation to the relative weighting of the various objectives, it should be possible to balance any competing objectives through an appropriate pricing methodology. Indeed the current arrangements in Queensland as described in the Transmission and Distribution Pricing Principles<sup>1</sup> allow for a balance between locational pricing signals for customers capable of making locational, production and investment decisions in a commercial environment and a level of price averaging for smaller end users who do not have commercial locational drivers.

<sup>1</sup> Department of Mines and Energy, Transmission and Distribution Pricing Principles, September 1999.

To provide the appropriate economic and cost of supply signals to contestable customers in Queensland, a network pricing regime has been developed and implemented. This pricing regime which includes the following three pricing structures has been effective since the introduction of contestability in Queensland. The three pricing structures are:

- Individually Calculated Customer (ICC) network prices generally apply to those customers with an annual consumption in excess of 40 GW.h, or where the customer has a significant impact on the supply network and an averaged price would not be appropriate. ICC prices are based on the allocation of actual Transmission Use of System Charges (TUOS) at the Transmission Network Connection Point (TNCP) where the customer is connected. The ICC network prices also include charge components reflective of the specific connection and shared distribution network assets. This provides cost reflectivity to this group of customers, however the scope is limited due to the specific allocation of costs and calculation of charges.
- Connection Asset Customer (CAC) network prices generally apply to those customers with an annual consumption less than 40 GW.h and greater than 4 GW.h, or where significant network augmentation is required to effect the customer's connection. CAC network prices are based on a specific charge for the connection assets and an average shared network cost. This provides an economic incentive through cost reflective network prices for the customers to optimise the sizing of their connection assets.
- Standardised Asset Customer (STD) network prices apply to the remaining contestable customers (i.e. with an annual energy consumption less than 4GW.h). STD network prices are based on average shared network costs and averaged connection asset costs. The prices are structured such that customers within a price group pay a fixed charge reflective of the appropriate connection assets for that group.

The principle covering equity should also consider the balance between the objectives of customers and their retailers and the Distribution Network Service Providers. This balance of objectives should include the assignment of risks and liabilities to the party best able to manage such aspects along with an appropriate level of financial consideration. The same principle in relation to financial consideration should also be applied to the service / price balance issue. As discussed in our previous submission on the Framework for Regulation, ENERGEX is supportive of the inclusion of a system performance and reliability incentive mechanism. However in consideration of the implementation of such a regime in a distribution network with in excess on one million connected customers, it is most appropriate at the revenue cap level.

The QCA has sought explicit response to the question of "*whether the requirement that the pricing regime should not discriminate between users is a sufficient allowance for equity.*"

ENERGEX submits that any cost based pricing regime for a distribution service will include some degree of discrimination, particularly between customers with different characteristic's and network connection level. Any aggregation of customers or end users into groups provides a degree of both equity and discrimination. There will always be border or boundary issues relating to the geographic and characteristic diversity of the groups. Discrimination can be minimised through effective and efficient categorisation of groups and the appropriate implementation of any geographic or network boundaries.

In relation to any current boundary and equity issues and their impact on published network prices in Queensland, the STD customer prices as published in the Price Books are largely free of boundary, equity and customer categorisation issues. The current published network pricing structures allow customers to choose the network price that best suits their specific operations and load characteristics. In effect, the network prices for the STD customers are “economically self selecting”. The absence of boundaries and the requirement to manage categorisation or assignment also results in less oversight and administration by the Distribution Network Service Providers. It is intended that this “economically self selecting” structure will be promulgated through successive tranches of contestable customers.

The QCA has also sought input on the role of incentives in network pricing. ENERGEX has provided a further and more detailed discussion of incentives in section 4.3 of this submission.

### 3 CHARACTERISTICS OF “EFFICIENT” PRICING

*The QCA in its Issues Paper seeks comments on:*

- *what role cost reflective network pricing should play in the Authority’s regulatory role? should the Authority exercise its discretion not to apply Part E?*
- *whether economic efficiency requires that prices reflect forward-looking marginal or incremental costs?*
- *whether it is acceptable to conclude that there is a range of prices that satisfy efficiency considerations?*
- *whether network prices should reflect future investment requirements, and so the probability of congestion and future network augmentation requirements?*
- *whether prices should take account of network congestion?*

#### 3.1 Role of Jurisdictional Regulator

ENERGEX submits that whilst specific sections of the Code refer to agreement by the Jurisdictional Regulator, a reasonable implementation approach would be the approval of a network price calculation methodology by the QCA. The network price calculation methodology would include both the Distribution Cost of Supply (DCOS) process as well as the translation of allocated costs to network prices. The requirements for such a methodology would be:

- (a) compliance with Part E of Chapter 6 of the Code, and
- (b) satisfaction of the eight principles and objectives put forward in Section 2.1 of this submission.

Whilst such an approach may require the QCA to become more deeply involved in the early stages, it would not be a case of ongoing micro-regulation. Indeed, following the approval of a methodology there would be no further regulatory oversight required except for periodic reviews to ensure conformance with the approved methodology.

The QCA can adopt Part E of the code and apply it through the approval of a compliant and agreed methodology.

### 3.2 Network Cost Development

In its discussion, the QCA identified three main options for network prices to be based on, namely:

- (a) marginal cost;
- (b) incremental cost; and
- (c) fully distributed cost.

ENERGEX prefers a hybrid arrangement which incorporates the key aspects of one or more of these cost allocation methods. The principal aspects of this arrangement include:

- economically efficient network prices in the range between incremental and stand alone costs,
- locational network prices for appropriate customers through specific network prices,
- economic signalling through the adoption of fixed price components reflective of incremental costs, and
- the appropriate treatment of common costs through non-distortionary pricing outcomes.

This section seeks to outline the flexibility of the current Code provisions and the process by which the desired economic drivers and incentives can be effected under Chapter 6.

The Code sets out a procedural framework which seeks to allocate a number of distribution service costs, namely –

- i) entry service
- ii) exit service
- iii) distribution use of system service
- iv) common service, and
- v) firm access service

to users of the distribution network. The distribution network users include customers, embedded generators, and sometimes, other Distribution Network Service Providers.

It should be noted that Clause 6.13 of the Code relates to the allocation of the Annual Aggregate Revenue Requirement to the various cost pools representative of the various categories or groups of customers. In this clause the Code seeks to allocate the costs to the cost pools in an economically efficient manner.

The entry and exit costs, which we would interpret as comprising:

- (a) return on the capital value of the connection assets;
- (b) return of the capital value of the connection assets;
- (c) efficient operating and maintenance costs of the connection assets; and
- (d) an efficient account establishment and maintenance fee,

are allocated directly to the relevant cost pools. These entry and exit costs can be categorised as incremental costs as they are representative of the incremental costs of connection to the established network.

Distribution Use of System Costs are generally defined as the –

- (a) return on the capital value of the shared network components;
- (b) return of the capital value of the shared network components, and
- (c) efficient operating and maintenance costs of the shared network components.

As described in Clause 6.13.5 of the Code, these costs can be allocated to the cost pools on the basis of a number of measures with the intention of replicating a “*cost reflective methodology*.”

This Clause 6.13.5 specifically allows for the allocation of costs on one or more of the listed measures. The adoption of a mix of these measures could give effect to a range of allocations between –

- (a) non-distortionary fixed cost recovery through a charge which does not vary between locations – in this case a uniform c/kW.h charge known as postage stamping, and
- (b) high level of signalling of the costs of network augmentation and investment – in this case a demand based charge to recover all of the costs of the shared network.

There exists within Chapter 6 of the Code the opportunity to allocate costs to cost pools on the basis of economically efficient parameters without a requirement for derogation.

Consistent with the discussion put by the QCA on the reliability and security aspects of the network and those components that benefit all users, the Code includes a specific Common Service distribution service class. Clause 6.13.1(g) states “*common service which includes the asset related costs and services that ensure the integrity of the distribution network and benefit all Distribution Customers and cannot be allocated on the basis of voltage levels and location*”. Allowance is then made to allocate these costs on a cost reflective or other basis which may include a straight c/kW.h or postage stamp allocation. Such an allocation is consistent with the economic principle of the allocation of non-specific costs on a non-distortionary basis.

ENERGEX submits that the Code in its current form provides for the adoption of cost allocation efficiency and the inclusion of appropriate economic principles and incentives. It is at the discretion of the Jurisdictional Regulator to approve a methodology which embodies the specific economic principles relevant to the Distribution Network Service Provider or Jurisdiction.

### 3.3 Network Price Development

The translation of allocated costs to network prices is the subject of Clause 6.14 of the Code. It is during this translation process that economic parameters, incentives and signalling are largely introduced and effected. Such an approach is appropriate as it is the network price that the customers see and respond to rather than the higher level allocated costs.

Network price structures throughout the National Electricity Market and International markets are generally comprised of a number of key components including:

- (c) fixed charges,
- (d) demand charges,
- (e) capacity charges, and
- (f) volume charges

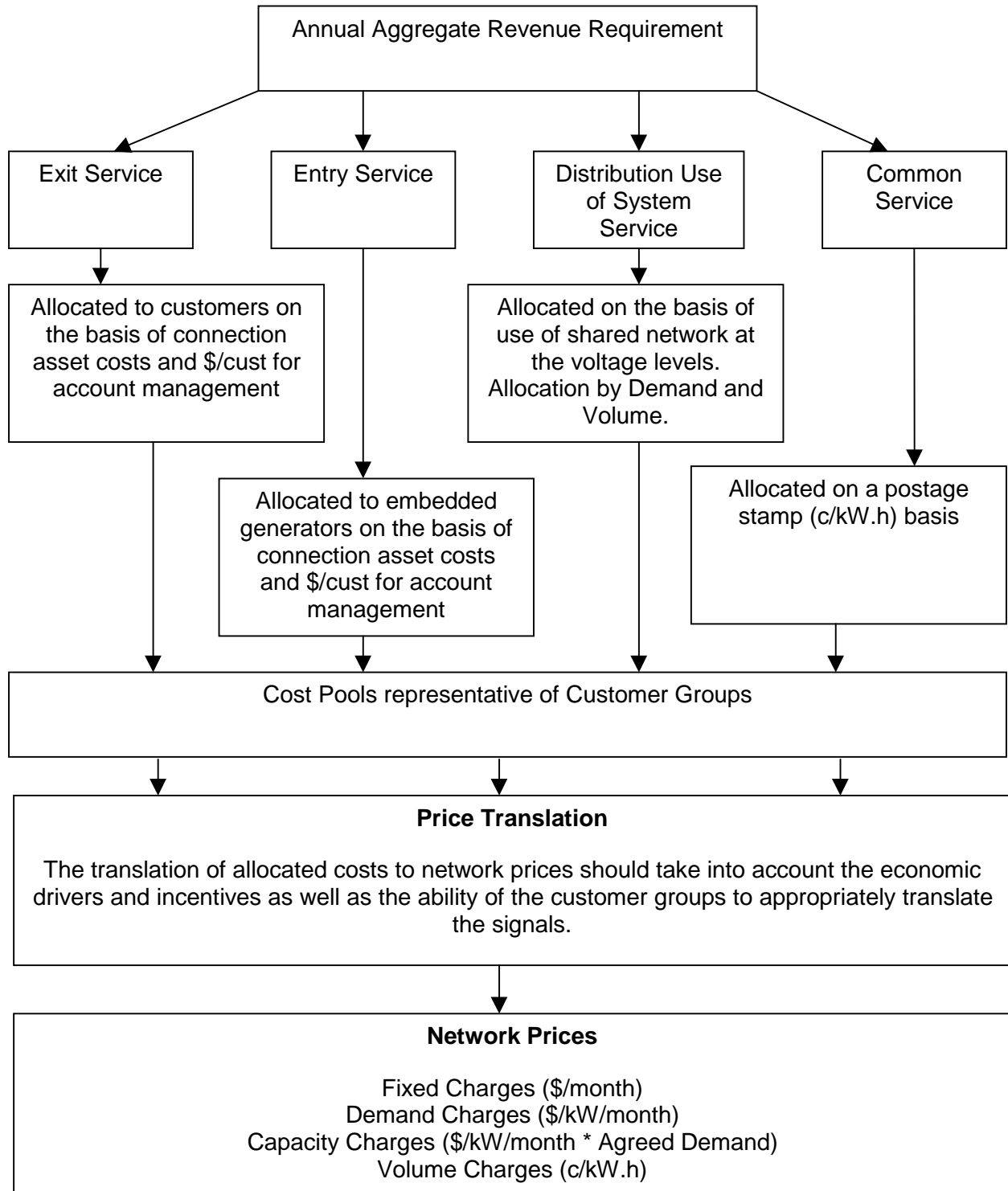
It is the relevant proportions and method of application of these components that determines the effect of the prices in reflecting economically efficient outcomes.

In the majority of cases, the network prices are developed consistent with the cost allocation process. This should satisfy the requirements for efficient pricing if the cost

allocation methodology is properly designed. Any shortfalls in the cost allocation methodology can however be overcome through effective network price translation.

Diagram 1, below sets out the current distribution cost allocation and network price translation process.

**Diagram 1 – Network Price Development**



### 3.4 Translation of Costs to Prices

The translation of allocated costs to network prices is a balance between implementing economic drivers and incentives whilst at the same time considering of the ability of the customers to interpret and respond to the signals and incentives. During the translation we must also be cognisant of and seek to avoid any perverse or undesirable outcomes or interpretation by customers.

Network pricing in distribution networks is very different to pricing in a transmission network. Distribution networks are fundamentally designed to connect a diverse range of customers, both from a geographic and an operational characteristic perspective, to an electricity distribution infrastructure through the most economic mechanisms. Transmission networks on the other hand are designed to transport energy from a small number of large point Generators (about 10) to large load centres (Transmission Network Connection Points), of which there are approximately sixty in Queensland.

In comparison, the ENERGEX distribution network is comprised of:

- some thirty Transmission Network Connection Points where energy is delivered from the transmission network,
- two hundred Zone substations which transform the voltage from the sub-transmission to the distribution level,
- thirty-five thousand distribution transformers which transform the voltage from the distribution to the reticulation level, and
- in excess on one million connected customers that take energy from the distribution network.

The typical economic efficiency expectations of a transmission pricing regime which include –

- (a) transparent reflection of spare capacity, and
- (b) costs and charges for congestion

are not readily deliverable in a distribution network pricing framework. The radial nature of the distribution network and the dispersion of customers along the network make the application of congestion or spare capacity pricing impractical.

ENERGEX is of the view that in a distribution network, the signalling of spare capacity and the requirement for price stability are somewhat contradictory. Customers are seeking price stability and certainty and long term incentives such as demand side management. Short term signalling of network constraints and spare capacity could substantially impede or corrupt these long-term objectives.

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Each of the network price structures and components will embody the relevant economic signals or incentives. Considering each of the four possible price components in turn will reveal the inherent drivers and efficiencies.

### **A Fixed Charges.**

Direct translation of exit costs to charges will result in prices that reflect the incremental cost of the customer connection. That is, the price will reflect the costs of the connection assets which are dedicated to the use of the single customer and some administration costs reflective of account establishment and management. These fixed charges will apply irrespective of consumption, and therefore provide an incentive for the customer to optimise their connection arrangements, particularly in the case of ICC's and CAC's.

### **B Capacity Charges.**

As discussed in the QCA Issues Paper, fully distributed cost pricing may over signal the network augmentation/capacity costs. On the other hand, marginal cost pricing does not adequately cover the costs of upstream network augmentation.

Capacity Charges can be used to recover that component of Distribution Use of System Services cost that is not recovered through the incremental cost based Demand Charge. This Capacity component should therefore be reflective of the "distribution" costs and in principle be recovered through a non-distortionary mechanism. However, due to the overall structure of the delivered cost of energy (inclusive of network prices, retail energy charges and market fees, etc), network prices are currently the main incentive input point for demand side management and other load factor incentive mechanisms. Therefore it is not necessarily desirable to recover these costs (residual distribution use of system services) on a postage stamp basis.

The inclusion of a specific capacity charge based on either the Agreed or Authorised Demand for the ICC's and CAC's and a Minimum Chargeable Demand for the STD's translates these costs to an equivalent monthly fixed price. This price therefore includes a long-term incentive for load and demand side management.

### **C Demand Charges.**

The Demand Charges can be used to reflect the incremental costs of the shared network including the costs of providing additional units of capacity. The demand charges should however seek to strike a balance between signalling the costs of capacity provision and providing appropriate economic signals and incentives to customers.

The level of demand (\$/kW or \$/kV.A) based charges compared to the level of volume (c/kW.h) charges, capacity charges and fixed charges has a fundamental impact on Demand Side Management signals and customer initiatives.

Taking into account the previously discussed practical difficulties associated with the development of network constraint and/or spare capacity charges, a reasonable and effective alternative is the establishment of an appropriate level of demand charges. It is difficult to determine the economically exact level of demand based charges, however we believe that the existing network price structure strikes an appropriate balance.

## **D Volume Charges.**

Any residual costs (inclusive of Common Services) can then be allocated on a non-distortionary postage stamped (c/kW.h) basis. It may be appropriate to provide some differential pricing between customer groups if some proportion of the Distribution Use of System Costs are also recovered through a volume charge component.

ENERGEX submits that the relevant economic drivers and incentives can be readily included in a cost allocation and pricing methodology as described in Section 3.2 and this Section 3.4.

It is a fundamental requirement that any effective cost allocation and network price determination methodology seek to address each of the previously identified eight principles and objectives. These objectives do include efficiency, balance and cost-effectiveness targets.

### **3.5 Network Price Transparency**

The current network pricing regime as described in the Transmission and Distribution Pricing Principles includes provisions relating to the publication of network prices. These provisions have been structured to provide confidentiality of network prices for ICC's and CAC's on the basis that the prices are site specific and therefore commercial in nature. This confidentiality is only restricted to the communication of prices to Customers and it is at the discretion of the customers as to who they make their specific network prices available.

Network Prices for the remaining (STD) group of customers are published in the Distribution Network Service Provider's Price Book as appropriate. The ENERGEX Price Book is available from our website.

There has been some comment recently about the level of distribution network prices in Queensland. Whilst ENERGEX is unable, for customer confidentiality reasons, to make a published comparison of the ICC and CAC network prices, the ESAA has published in its document entitled "Electricity Prices in Australia 1999/2000" which is a comprehensive comparison of network prices for the small to medium sized customers. With specific reference to Tables 2.1, 2.2.1 and 2.2.2 of this ESAA report, Queensland (and more specifically ENERGEX) has some of the lowest distribution network prices in Australia. By inference (as they are developed under the same regulatory framework) the network charges for ICC's and CAC's should include the same degree of comparable relativity. The Queensland ICC's and CAC's should also benefit from the inherent cost reflectivity of the pricing regime which specifically recognises the level of assets required to effect the network connection for these customers.

### **3.6 Economic Efficiency Objectives**

In response to the QCA question about forward-looking prices, ENERGEX submits that the level of fixed network charges (to be applied irrespective of consumption) should relate to the incremental cost of the connection of the customer. This has been effected in the current pricing regime where the costs of providing the connection assets are recovered on a fixed price basis along with a proportion of the account establishment and management costs.

Taking into account the efficiency considerations raised in the QCA Issues Paper and other discussion forums, there is indeed a range between which network prices could be considered to satisfy efficiency considerations. Such a range would extend from incremental pricing at the lowest level through to full bypass or stand-alone pricing at the highest level. The principle of fully distributed costs upon which the Code requirements are predominantly based falls within the band set by the incremental costs and the stand alone costs.

## 4 REGULATORY CONTROL OPTIONS

*The QCA in its Issues Paper seeks comments on whether:*

- *side constraints should be adopted at all by the Authority, and with what pricing objective(s) in mind?*
- *any side constraints should only apply to residential customers, or be applied to commercial customers as well?*
- *any side constraints should apply to individual end users or just at the customer group level?*
- *any side constraint should be expressed in terms of a fixed percentage or dollar amount (or both)?*
- *at what level should any side-constraint be set?*
- *DNSPs should be required to submit their pricing principles or strategies to the Authority for approval prior to the commencement of each regulatory control period?*
- *the annual information requirements in support of a DNSP's proposed network tariffs for the coming year should be a matter for the DNSP to determine, or should the information required be specified by the Authority?*
- *if the Authority specifies its annual information requirements, any supporting quantitative analysis should be restricted to the 'cross subsidy' test (as in Victoria) or extended to cover a wider range of matters (such as in NSW)?*

### 4.1 Side Constraints

It is noted that the QCA has not put forward a proposed position in relation to side constraints or network prices, but rather has outlined a range of options.

ENERGEX recognises the need for side constraints in network prices, particularly in delivering the objective of price stability and certainty.

However, ENERGEX submits that such side constraints should not seek to inappropriately limit the ability of the Distribution Service Provider to recover its target revenue through the appropriate mechanism. Side constraints set at too low a level can also support inefficient pricing outcomes such as cross subsidies. The Distribution Network Service Providers must have sufficient flexibility to establish network prices that are economically efficient and that result in the recovery of the target revenue on a sustainable basis.

In the contestable electricity market, only the Distribution and Transmission Network Service Providers are regulated, therefore any side constraints can only be applied to the network prices (inclusive of both transmission and distribution charges). The energy market components of the total costs of delivered energy are subject to market forces and totally outside of the scope of QCA oversight or regulation. There can therefore be no contemplation of applying side constraints at the retail level in the contestable market.

ENERGEX recommends the adoption of a real-terms percentage change specification in line with that adopted in New South Wales and Victoria (i.e.  $CPI + \alpha\%$ ). This approach will provide consistency across the National Electricity Market and provide adequate flexibility in network price design and implementation. Subject to the support of customers and Retailers, ENERGEX would accept the New South Wales approach of a  $\$ \beta$  cap on the change in network charge costs (in total) for domestic/residential customers.

The side constraints should apply to the network prices. Any side constraint based on total network charge costs for customers is impractical as any changes in demand or energy consumption by the individual customer would have to be excluded from the analysis.

#### 4.2 Approval of Pricing Principles.

The two options proposed by the QCA appear to be at the opposite ends of the regulatory oversight spectrum, namely:

- minimum oversight with the Distribution Network Service Providers responsible for the principles and strategy, and
- significant regulator micro-management through price principle and price book approval.

ENERGEX submits that a variation of the second option put forward by the QCA in their Issues Paper be adopted. This revised option would require each DNSP to submit a "pricing principles statement" to the QCA at the beginning of each regulatory control period, and for the Distribution Network Service Providers to develop and where appropriate publish pricing schedules based on a cost allocation and pricing methodology approved by the QCA.

Such a "pricing principles statement" would include reference to forthcoming or anticipated Tranche openings (e.g. Full Retail Competition), the anticipated pricing framework to be implemented and any anticipated network price structural changes.

Consistent with Section 7 of this submission, it would be appropriate to include in the pricing methodology details of the process by which customers are segregated or allocated to network price groups, i.e. the basis by which customers are allocated to specific customer classes for network pricing purposes.

This approach is consistent with the Code and therefore supports the adoption of the majority of Part E of Chapter 6 of the Code. It also provides the flexibility for the Distribution Network Service Providers to develop and implement new or revised network prices for ICC's and CAC's in a timely manner consistent with the approved methodology.

### 4.3 Information/Documentation Requirements.

ENERGEX submits that the form of “pricing principles statement” and cost allocation and pricing methodology will dictate the level of information and documentation realistically required by the QCA.

If the form of regulation is to be a price-cap, then limited information will be required.

If the form of regulation is to be a revenue cap and the resultant methodology provides for the development and publication/application of network prices by the Distribution Network Service Providers, then some form of supporting documentation will be required, probably in the form of network pricing guides like New South Wales. The QCA’s information requirements should be specified in advance and be included in the methodology. The specification of information requirements should be consistent with the pricing objective of “*ensuring an efficient and cost-effective regulatory environment*”.

## 5 CAPITAL CONTRIBUTIONS

Part E of Chapter 6 of the Code also includes clauses which cover Capital Contributions, namely Clause 6.15.2 and Clause 6.15.3.

ENERGEX agrees with the intention of the Code in that the Distribution Network Service Provider should not generally be entitled to recover any asset related cost component of the annual aggregate revenue requirement for assets contributed by the network user or customer, however the implementation of this intention requires further consideration.

The current regulatory regime in Queensland seeks to simplify the implementation of the Code intention by incorporating the recognition of capital contributions in the Revenue Cap calculation.

ENERGEX supports the current treatment of Capital Contributions as set out in the Transmission and Distribution Pricing Principles<sup>1</sup> and recommends that it be retained. However, the retention of this arrangement may require a review of Code compliance.

ENERGEX recommends that the QCA, the Department of Mines and Energy and the Queensland Distribution Network Service Providers review the Capital Contribution provisions of the Code and develop any necessary Derogation.

## 6 ENHANCED SERVICE PROVISION

The Code makes provision for Generators and Service Providers to negotiate network availability and other services at a level above that prescribed by the Code. Retailers and Customers are seeking similar options in relation to services, assets and availability.

ENERGEX proposes that the network pricing regime should not seek to inhibit a commercial approach to the negotiation of above benchmark service levels and that any regulatory oversight should not restrict the ability of the parties to negotiate in a commercial manner.

<sup>1</sup> Department of Mines and Energy, Transmission and Distribution Pricing Principles, September 1999.

## **7 FULL RETAIL COMPETITION**

The implementation of Full Retail Competition will require significant effort on the part of all Code and Market Participants, including co-ordination between Distribution Network Service Providers and retailers. Of particular interest is the development of retailer price lists or equivalent mechanisms for the communication of the contestable delivered energy costs to customers in a mass market environment. It is anticipated that there will need to be consultation between the retailers and Distribution Network Service Providers in relation to the definitions for the network prices and the customer groups covered by these regulated prices.