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

Dear ~~Mr Hall~~ Ed

DISTRIBUTION PRICING PRINCIPLES — ISSUES PAPER

Thankyou for providing me with the opportunity to comment on the 'Distribution Pricing Principles' issues paper. I would firstly like to congratulate the staff of the Queensland Competition Authority on producing a well researched document on issues of distribution pricing.

Although at this stage I do not have any specific comments addressing the issues, I take this opportunity to briefly outline the pricing regime for electricity distribution in South Australia (as the report covers only New South Wales and Victoria). This regime is set out in the Electricity Pricing Order 1999 (EPO) and the Distribution Code, both of which are available from our website (www.saiir.gov.au).

The network tariff structures that apply in South Australia are similar to that in Victoria. The EPO sets a number of customer categories on which distribution tariffs are based. These tariffs comprise a supply charge ($pa) and a usage charge (c/kWh). Higher voltage users also face a charge based on maximum demand ($/kW pa). In terms of the equity and efficiency trade-off, the EPO sets tariffs according to the principles of state-wide pricing for small customers, as set out in Section 35A(2) of the *Electricity Act 1996.*

These tariffs are determined by a revenue yield regime, which provides a cap on the average revenue per unit that each distributor can earn in any year. The resulting maximum allowable revenue (MAR) is adjusted annually by changes in inflation and by an established 'X' factor — which was determined as part of the EPO process.

A Performance Incentive Scheme is also built into the EPO and Distribution Code. Schedule 2 of the Distribution Code outlines several service quality measures and assigns merit or demerit points depending on performance against these measures. The distributor is required to report their performance to this Office, and their MAR is adjusted according to the calculations set out in the EPO. In addition, the MAR is adjusted in line with the statutory obligation to fund an under-grounding program.

This regulatory framework has the advantage of providing some of the incentives and flexibility of a competitive market. For example, ETSA Utilities have some flexibility to adjust their tariff structures — so that total revenue does not fall as a result of changing market conditions. Furthermore, this regime provides incentives for the distributor to increase sales volumes, unlike a revenue cap regime for example. There are also incentives for the distributor to improve performance (and penalties if it worsens).

I hope you find this information useful. Please contact either Rajat Sarawat or Craig de Laine on 08 8463 4444 from this office if you would like to discuss this letter further.

Yours Sincerely

Lew Owens
Industry Regulator