

Queensland Competition Authority
Level 19, 12 Creek Street
Brisbane, Queensland
Australia 4000

Dear Sir or Madam:

Capital Expenditure Pass through Application from ENERGEX Limited

In its 2005 *Final Determination: Regulation of Electricity Distribution*, the Queensland Competition Authority (the Authority) included a capex forecasts for Energex of \$2.7 billion rather than the \$3.4 billion proposed by Energex. However, the Authority provided scope for Energex to seek to pass-through the costs associated with additional capex during the current regulatory period, up to its original forecast of \$3.4 billion. The Authority indicated that it would only approve the pass-through of such costs after seeking public comment and subject to certain criteria set out in the Determination.

We note that the Authority required that Energex demonstrate it is able to undertake any increase in investment wisely. We understand that the Authority will examine this condition of the capex pass-through mechanism by examining whether:

- Energex has the necessary resources to deliver the capex program (i.e. is able);
- Energex has implemented policies and procedures to ensure that it undertakes only prudent and efficient investment (i.e. will invest wisely); and
- Energex's proposed cost base from the additional capex is comparable with other electricity distribution businesses.

TRUenergy has reviewed the ENERGEX submission and has the following comment on the reasonableness of the application:

- The price effects of the additional capex sought upon the market are unreasonable. In particular the additional \$77 million of non system capex proposed, and the short life costs of non system capex, will drive regulated prices to high levels in the short term in a

manner not contemplated by the Queensland Governments recently published approach to the setting of Retail prices;

- The opportunity to seek additional capex funding during the current regulatory period provided for in the original determination should not reasonably be viewed as an opportunity to revisit the original 2005 determination. We would therefore conclude it unreasonable to justify the described expenditures on property, vehicle fleets etc;
- The impact on network customers, including retailers, would be reasonably mitigated by pushing any additional capex pass through into the next determination period.

Please contact me on 03 8628 1156 should you wish to discuss any of these matters further.

Yours sincerely,

David McAloon
Head of Regulation and Government Relations