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Manager – MCE Secretariat  
Department of Industry, Tourism and Resources  
GPO Box 9839  
CANBERRA ACT 2601



Email: [MCETMarketReform@industry.gov.au](mailto:MCETMarketReform@industry.gov.au)

Dear Sir/Madam

## **National Framework for Distribution and Retail Regulation**

Ergon Energy Pty Ltd (Ergon Energy) appreciates the opportunity to provide comment to the Ministerial Council on Energy (MCE) on the *Proposed Framework Schedule for Transfer of Distribution and Retail Functions*. This submission is made by Ergon Energy in its capacity as an electricity retailer in the National Electricity Market (NEM).

Ergon Energy supports the principle of national uniform regulation given the significant opportunities that currently exist to streamline the regulatory environment and associated efficiency and cost savings for both market participants and energy consumers. However, the process for achieving national consistency needs to be carefully articulated and managed, particularly the timing of the transition program.

The need to carefully manage the transition has been heightened due to the recent announcement by the Queensland Government to introduce full retail competition (FRC) for electricity and gas by 1 July 2007. Given the national reform process and the development of the regulatory and legislative framework for FRC will run concurrently, Queensland market participants, particularly distributors and retailers, are presented with a significant challenge – to ensure regulatory consistency between the two regulatory reform processes. Failure to achieve regulatory consistency will result in system and process modifications, resulting in additional costs which will jeopardise the delivery of the full efficiency benefits attributable to the two reform processes.

Many of the functions identified in the proposed framework are detailed and complex issues. As such, without knowing the full details of the actual policy and/or regulatory instruments to be implemented it is difficult to comment fully at this point in time on the suitability of the proposed arrangements.

Ergon Energy's submission does not comment on any initiatives specific to distribution. Our submission focuses only on the retail regulatory functions, in number order as detailed in the proposed framework, which Ergon Energy believe should not be transferred, as proposed.

### *3. Regulatory Requirements in Relation to Tariff Settings*

For a number of jurisdictions, regulated networks have undergone or are currently undergoing their second round of revenue reviews. As such, it would be premature to assume the individual components of the retail price are economically efficient (lies between the incremental and stand alone price). Albeit, economically efficient pricing is desirable, for

a number of jurisdictions this objective will not be achieved in the short to medium term that is the period of the current regulatory determination.

Ergon Energy supports the principle of economically efficient retail pricing however believes the removal of existing cross-subsidies and the transitioning of these towards economically efficient pricing will take in some cases more than one regulatory determination (eg five years). In order to ensure the continuation of current pricing reforms and minimal price shocks to customers (limited to independently determined side constraints) retail tariff setting should remain with the respective jurisdictions.

#### *11. Distributor Interface with Retailers*

The transfer of this function to the national regime is supported provided there is flexibility to accommodate justifiable jurisdictional differences such as isolated networks.

#### *15. Retail Price Regulation & 16. Retailer Obligations to Supply to Small End-customers*

Ergon Energy considers that it is too premature to form a position on whether the following functions should in the short to medium term be transferred to the national regulator.

Prior to considering the transfer of these functions an independent review should be conducted. This review should be aimed at developing through industry consultation, the relevant policy and regulatory instruments. Once these instruments have been determined an assessment can be made as to whether these should be transferred to the national regulator or be retained under the current jurisdictional arrangements.

#### *17. Retailer Failure Arrangements & 19. Retailer Small End Customer Marketing*

A national framework for regulation requires to the extent practicable regulatory arrangements which are applied consistently across the jurisdictions. However, complete uniformity may be neither necessary nor desirable. Whilst regulatory consistency is the primary goal, there should not be an attempt to achieve national uniformity through the adoption of the lowest common denominator from the existing frameworks, rules, codes or guidelines, or indeed by adopting any one of the existing jurisdictional frameworks as the national option.

Prior to the transfer of the 'Retailer Failure Arrangements' and 'Retailer Small End Customer Marketing' to the national regime, a review of the individual functions must be conducted from first principles to identify the most efficient framework/rules for the operation of an efficient national market.

#### *18. Retailer Small End-customer Market Contracts*

Ergon Energy considers that it is too premature to form a position on whether the following function should in the short to medium term be transferred to the national regulator. Rather a timetable for review should be agreed where the current and proposed arrangements would be assessed. Dependent on the findings of this assessment, which would be conducted in consultation with industry, the transfer or retention of current jurisdictional arrangements would be determined.

#### *29. Environmental Obligations*

Greenhouse abatement, by its very nature, should be addressed through nationally consistent measures rather than mutually exclusive jurisdictional regimes. To date, the respective jurisdictions have favoured market based jurisdictional responses to greenhouse gas abatement. In order to achieve greater efficiencies – environmental policies should be nationally consistent in approach thereby providing greater opportunity to maximise both the full environmental and economics efficiencies achievable under a market based scheme. Nationally consistent measures could be achieved through the introduction and/or incorporation of existing market based regimes into a single regime. Alternatively, some efficiency gains could be made by maintaining the status quo with increased opportunities for

fungibility. Irrespective of who is responsible for the function a co-ordinated and consistent policy must be adopted.

We would welcome the opportunity to discuss our comments with you at your convenience. Please feel free to contact me or Angela Moody on (07) 3228 7536 should you wish to discuss any aspects of Ergon Energy's submission.

Yours sincerely

Darren Barlow  
General Manager, Strategic Relations

Telephone: 07 3228 8116  
Facsimile: 07 3228 7766  
Email: [darren.barlow@ergon.com.au](mailto:darren.barlow@ergon.com.au)