



Ref.: JD/AC

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Mr James Eastcott  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

97-99 Adelaide Street  
Maryborough QLD 4650  
PO Box 163  
Maryborough QLD 4650  
Telephone 13 10 46  
Facsimile 07 4123 1124  
Website [www.ergon.com.au](http://www.ergon.com.au)

Dear Mr Eastcott

## **ERC0137 – AEMC’s Consultation Paper - Cost Pass through arrangements for network service providers**

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity provided by the Australian Energy Market Commission (AEMC) to provide comments on the *Cost Pass through arrangements for network service providers - Consultation Paper* – (Consultation Paper). This submission is provided by Ergon Energy in its capacity as a Distribution Network Service Provider (DNSP) in Queensland.

Ergon Energy supports Grid Australia’s rule change request. Ergon Energy is proactive in its risk management approach and considers that risk management is part of the necessary steps a prudent operator would take in their provision of Distribution Services. Specifically, Ergon Energy recognises that there are a number of events, for example, a natural disaster event, that are uninsurable either because insurance is not available or it would not be prudent or efficient given the costs associated with obtaining the insurance. The cost pass through mechanisms available under the National Electricity Rules (the Rules) are an appropriate area where this risk can be addressed as the opportunities for revocation or substitution of a distribution determination are limited to the material error or deficiency circumstances set out in the Rules<sup>1</sup>.

Ergon Energy has not addressed the questions individually proposed by the AEMC, but rather provided a high-level position of the 4 key points raised in the Rule change request from Grid Australia. These are discussed below:

- Incorporate a new ‘natural disaster event’ within the statutory definition of pass through events. Ergon Energy supports the inclusion of this definition. Ergon Energy sought approval from the AER in their Regulatory Proposal and Revised Regulatory Proposals to have a “force majeure” event declared as a nominated pass through event<sup>2</sup>. The Australian Energy Regulator (AER) confirmed in the *Final Decision, Queensland Distribution Determination 2010-11 to 2014-15* (Final Distribution Determination) that a force majeure event will need to be assessed at the time an application for cost pass through is made. Ergon Energy supports this new event as it provides some regulatory certainty for Network Service Providers (NSPs) and is an appropriate risk management strategy.

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<sup>1</sup> clause 6.13

<sup>2</sup> Final Decision, Queensland Distribution Determination 2010-11 to 2014-15, May 2010, pg310.

- Includes a new insurance cap event within the definition of pass through events. Ergon Energy supports Grid Australia's intent to include a new insurance cap event as a defined statutory pass through event. However Ergon Energy considers that the definition proposed by Grid Australia may be ambiguous and could benefit from being refined.
- Ability for Transmission Network Service Providers (TNSPs) to propose additional pass through events in their revenue proposals. Ergon Energy supports Grid Australia's Rule change request and sees value in providing TNSPs with the same flexibility afforded to DNSPs in managing risks.
- Addressing the "dead zone" issue. Ergon Energy is supportive of amendments to the Rules to allow NSPs the opportunity to recover costs for pass through events which occurred in the prior regulatory control period but which have not been incorporated into the NSPs expenditure forecasts of the following regulatory control period.

Ergon Energy looks forward to providing continued assistance to the AEMC in its consultation on the Grid Australia's Rule change request on Cost Pass Throughs. Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 4092 9813 or Alena Christmas on (07) 3228 8272.

Yours sincerely



Jenny Doyle  
Acting Group Manager Regulatory Affairs

Telephone: 07 4092 9813

Email: [Jenny.Doyle@ergon.com.au](mailto:Jenny.Doyle@ergon.com.au)