

Ref.: TP/ TM

30 October 2009

Australian Energy Market Commission  
AEMC Submissions  
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Dear Sir / Madam

### **Design Discussion Paper – Review into the use of Total Factor Productivity for the determination of prices and revenues**

Ergon Energy Corporation Ltd (Ergon Energy) welcomes the opportunity provided by the Australian Energy Market Commission (AEMC) to comment on its Design Discussion Paper regarding the review into the use of Total Factor Productivity (TFP) for the determination of prices and revenues.

This submission, which is available for publication, is made by Ergon Energy in its capacity as an electricity distribution network service provider (DNSP) in Queensland.

#### ***Ergon Energy does not support the application of TFP at this time***

Ergon Energy supports the review into the use of TFP as an alternative control setting methodology and appreciates the efforts of the AEMC in drafting its Design Discussion Paper to encourage stakeholder feedback on the potential design features that could be incorporated into a TFP approach.

Ergon Energy does not support the introduction of TFP as an alternative control setting method at this time. Ergon Energy retains the same concerns about the introduction of TFP as it expressed in its letter to the AEMC on 27 February 2009. In particular, Ergon Energy remains of the view that:

- The “policy problem” that the introduction of TFP is apparently attempting to “solve” has not been sufficiently articulated, such that there is no compelling reasons to amend the National Electricity Rules (Rules) to allow for TFP;
- The industry is not currently in a steady state, which the Expert Panel appointed by the Ministerial Council on Energy to review Chapter 6 of the Rules considered was a necessary precursor for introducing TFP;
- There is a lack of comparability between DNSPs, such that it will extremely difficult to develop outputs that are reflective of all DNSPs’ operations; and
- The application of TFP should strictly be at the election of the DNSP.

Attachment 1 of this submission responds to each of the key design elements raised in the AEMC’s Design Discussion Paper and Attachment 2 responds to the specific questions that the AEMC asked in its Design Discussion Paper. However, none of the comments in the attachments to this submission should be interpreted as reducing Ergon Energy’s fundamental concerns about the application of TFP and its view that TFP should not be applied at this time.

### ***General Comments on the AEMC's "Straw Man"***

Ergon Energy has carefully reviewed the AEMC's Design Discussion Paper and "Straw Man" framework. Ergon Energy supports the AEMC's proposals to:

- Allow DNSPs to choose whether or not to apply TFP;
- Enable the AER to include mechanisms that reflect DNSPs' specific arrangements in their distribution determinations, including a rolling or fixed X, cost pass throughs, capital modules and off ramps; and
- Maintain flexibility in the length of regulatory periods.

However, Ergon Energy has four key concerns about the AEMC's TFP "Straw Man" being used as a basis for determining prices and revenues for its distribution services. These concerns relate to:

1. Certainty and predictability for the DNSP;
2. Agreement on the TFP components;
3. Discretion for the AER; and
4. Regulatory compliance burden on the DNSP.

Each of these concerns is discussed in turn below.

#### ***Certainty and predictability for the DNSP***

If a TFP approach is to be provided as an option to DNSPs for setting the price or revenue path, or X factors, then the Rules will need to clearly specify the methodology and processes that govern its application.

This is necessary in order to provide sufficient regulatory certainty and predictability for DNSPs as to the outcome that a TFP approach will deliver. This is particularly important in the electricity distribution industry, which is characterised by major infrastructure works with long investment time horizons.

#### ***Agreement on the TFP components***

Ergon Energy considers that a TFP approach must be reflective of the real inputs and outputs, including their relative weightings, of each DNSP. This is essential if the TFP approach is to accurately reflect the relative productivity changes of the electricity and gas distribution industries.

The use of approximations for TFP input and output components should not be utilised in the name of efficiency and expedience and should only be employed following consultation and agreement with the DNSPs. For example, it would be inappropriate for the AER to impose productivity measures that are only reflective of the outputs of some of the DNSPs, such as those with a competitive retail business, and impose them on a pure network business.

Normalising TFP data to account for differences in operating environments should not be permitted and any adjustments to be made to TFP data to account for structural differences in the DNSPs needs to be:

- Limited;
- Transparent;
- Consistently applied through a clearly defined process; and

- Agreed upon and carried out in consultation with all DNSPs.

Ergon Energy considers that the AER should be required to reach an agreement with the DNSPs that the TFP components are a real reflection of the inputs and outputs of each DNSP prior to the adoption of a TFP approach.

#### Discretion for the AER

The AEMC's "Straw Man" provides discretion to the AER in relation to a variety of matters about the way in which the TFP approach will be applied. These include:

- The method for calculating the index number form, in particular whether the Fisher, Tornqvist or some other superlative method will be used;
- The adjustments that can be made to audited historical data;
- The method for calculating the TFP growth rate – in particular, whether an average annual growth rate or a regression-based trend method should be applied;
- Considerations necessary to calculate the  $P^0$  using a building block approach; and
- Any DNSP specific adjustments to an industry TFP growth rate.

Ergon Energy considers that the Rules should limit, to the greatest extent possible, the discretion that is afforded to the AER in applying the TFP approach. Where the AER's discretion is considered necessary, the Rules should clearly specify how it should exercise its discretion, including the processes involved and the objectives it should seek to achieve.

#### Regulatory compliance burden on the DNSP

The AEMC's "Straw Man" would result in additional information reporting requirements for a DNSP, including where a DNSP chooses:

- Not to adopt a TFP approach – the DNSP will still need to provide:
  - On-going TFP data for use in regulating other DNSPs' distribution services; and
  - Building block information before the start of each regulatory control period for use in regulating its own distribution services.
- To adopt a TFP approach – the DNSP will need to provide:
  - On-going TFP data for use in regulating its own, and other DNSPs', distribution services; and
  - Building block information before the start of each regulatory control period for use in setting the  $P^0$ .

Any changes to the Rules should seek to ensure that the information provision requirements on DNSPs are minimised so as to limit their regulatory compliance burden.

Collecting, maintaining and providing information of the kind, and in the format, required by regulators is time consuming and costly, as it is often different to what a DNSP requires for its internal operations. The DNSP should be compensated for the additional costs associated with providing the information.

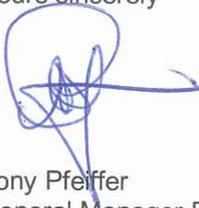
In order to minimise the regulatory compliance burden on DNSPs, the AER should ensure that it coordinates all of its information requests from DNSPs so as to meet its various requirements, including in relation to:

- The building block approach before the start of each regulatory control period – the initial TFP and building block information requirements should be consolidated into the regulatory information instruments;
- The on-going application of the TFP approach; and
- Any on-going regulatory reporting.

**Closing**

If you have any questions or require any further information on the matters raised please do not hesitate to contact me on (07) 3228 7711 or Troy McKay-Lowndes on (07) 4122 5312.

Yours sincerely



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## Attachment 1 – Response to AEMC’s TFP “Straw Man” Design Elements

Application of TFP	Ergon Energy Response
<p>1. DNSP has option of whether to apply TFP or building block approaches both in first instance and then in subsequent regulatory control periods (i.e. DNSP can choose whether to revert back and forth between approaches).</p>	<p>Ergon Energy:</p> <ul style="list-style-type: none"> <li>• Supports the provision for a DNSP to choose between the TFP and building block approaches in setting the price or revenue path for each regulatory period; and</li> <li>• Supports a DNSP being able to revert between the TFP and building block approaches between regulatory control periods.</li> </ul> <p>This is necessary given:</p> <ul style="list-style-type: none"> <li>• The uncertain nature of TFP arrangements and outcomes; and</li> <li>• The need for financial certainty / predictability for DNSP over time.</li> </ul>
<p>2. AER would develop non-binding TFP guidelines covering matters where:</p> <ul style="list-style-type: none"> <li>• The AER would have discretion; and</li> <li>• The DNSP could adapt the TFP approach to its circumstances.</li> </ul>	<p>Ergon Energy considers that there is a need for TFP guidelines but considers that the Rules should:</p> <ul style="list-style-type: none"> <li>• Clearly limit the nature and extent of the AER’s and DNSPs’ discretion;</li> <li>• Clearly define the areas of the TFP approach that can be adapted to a DNSP’s particular circumstances;</li> <li>• Give clear guidance about how the AER should exercise its discretion, including the processes involved and the objectives it should seek to achieve;</li> <li>• Promote transparency and predictability in the AER’s decision making; and</li> <li>• Provide effective appeal mechanisms.</li> </ul> <p>Ergon Energy considers that the Guidelines should provide a basis for the AER and DNSPs agreeing on the component measures to be used in the TFP approach.</p>

Application of TFP	Ergon Energy Response
<p>3. Same timetable would apply under TFP, as under the building block approach, for DNSP preparing Regulatory Proposal and AER making its Distribution Determination – DNSP would nominate in its Regulatory Proposal whether it wanted to have TFP or building block approach applied.</p>	<p>Ergon Energy:</p> <ul style="list-style-type: none"> <li>• Agrees that the same timetable should apply under both a TFP approach and a building block approach;</li> <li>• Considers that agreement must be reached prior to the beginning of the forthcoming regulatory period on the exact nature of the TFP approach to be employed, including the input and output components, and their relative weightings, to be used for calculating the TFP during the regulatory period;</li> <li>• Notes that it appears that the TFP approach will require annual information to be reported by DNSPs given: <ul style="list-style-type: none"> <li>○ The different timings of the regulatory control periods and distribution determinations that apply to DNSPs across jurisdictions. The AEMC should make clear the extent to which the AER will need additional information from all industry participants in order to calculate the change in industry TFP for each distribution determination; and</li> <li>○ The proposed option for a DNSP to adopt a fixed or rolling X factor. The decision of an individual DNSP to adopt a rolling X factor would appear to require the re-calculation of the annual change in industry TFP. The AEMC should make clear the extent to which the AER will need additional information from all industry participants in order to do this.</li> </ul> </li> </ul>
<p>4. Neither AER nor DNSP can change application of TFP approach during the regulatory control period.</p>	<p>Ergon Energy agrees that it is essential that the TFP approach:</p> <ul style="list-style-type: none"> <li>• Remain unchanged during the regulatory control period to: <ul style="list-style-type: none"> <li>○ Ensure certainty for the DNSP in the outcome; and</li> <li>○ Provide confidence in the stability of the TFP methodology to be applied;</li> </ul> </li> <li>• Provide appropriate mechanisms to allow the DNSP to recover any material increases in expenditure resulting from events outside the DNSP's control. This is discussed further below in relation to cost pass throughs and off-ramps.</li> </ul>

Calculating the TFP Growth Rate	Ergon Energy Response
<p>5. AER can only apply an “index number approach” for combining changes in the quantities of outputs and inputs into measures of the change in total output quantity and total input quantity. The AER could apply the Fisher, Tornqvist or some other “superlative” method of making this calculation having regard for the available dataset.</p>	<p>Ergon Energy:</p> <ul style="list-style-type: none"> <li>• Agrees with applying an “index number approach” by using the Fisher, Tornqvist or some other “superlative” method for combining changes in the quantities of the agreed TFP outputs and inputs;</li> <li>• Notes that it is not clear on what basis the AER would decide whether to apply the Fisher, Tornqvist or some other superlative approaches. The basis for the AER making this decision needs to be specified in the Rules; and</li> <li>• Considers that the chosen method should be confirmed prior to the AER making any distribution determination in order to allow greater certainty and transparency to the TFP approach.</li> </ul>
<p>6. Rules will specify the basis for calculation of TFP inputs, outputs and weightings.</p>	<p>Ergon Energy:</p> <ul style="list-style-type: none"> <li>• Notes that the AEMC has provided very little information about the TFP inputs, outputs and weightings in its Design Discussion Paper;</li> <li>• Considers that a TFP approach must be reflective of the real inputs and outputs, including their relative weightings, of each DNSP. The use of approximations for TFP input and output components should not be utilised in the name of efficiency and expedience and should only be employed following consultation and agreement with the DNSPs; and</li> <li>• Considers it is essential that, before any changes to the Rules are made, the AEMC consult about the nature of the inputs, outputs and weightings that will be applied under the TFP approach; This is necessary because it is not possible to understand how the TFP approach will work without this information.</li> </ul>
<p>7. There would either be:</p> <ul style="list-style-type: none"> <li>• A single TFP growth rate factor applied based on all regulated DNSPs in that factor</li> <li>• Different TFP growth rate factors applied for urban (high and low density) and rural (high and low density)</li> </ul>	<p>Ergon Energy cannot express a preference for either option without better understanding:</p> <ul style="list-style-type: none"> <li>• The nature of the TFP inputs, outputs and weightings that are to be applied; and</li> <li>• How an individual DNSP’s specific circumstances will be reflected into the TFP decision making process.</li> </ul>

Calculating the TFP Growth Rate	Ergon Energy Response
<p>8. All DNSPs would be required to provide TFP data, regardless of whether TFP approach is being applied to their business.</p>	<p>Ergon Energy recognises that the TFP approach relies on information being provided by all DNSPs.</p> <p>However, the AEMC and AER should seek to minimise the regulatory compliance burden on DNSPs by coordinating, to the greatest extent possible, the regulatory information that is required from DNSPs, including in relation to:</p> <ul style="list-style-type: none"> <li>• The building block approach before the start of each regulatory control period – the initial TFP and building block information requirements should be consolidated into the regulatory information instruments;</li> <li>• The on-going application of the TFP approach; and</li> <li>• Any on-going regulatory reporting.</li> </ul> <p>DNSPs should be compensated for the additional costs associated with providing any additional information.</p>
<p>9. AER cannot include data from any other businesses (e.g. TNSP or overseas) in TFP dataset.</p>	<p>Ergon Energy agrees that data from any other businesses (e.g. TNSP or overseas) should not be included in the TFP dataset.</p>
<p>10. AER required to use audited historical data provided by DNSPs but can make adjustments in accordance with Guidelines for:</p> <ul style="list-style-type: none"> <li>• Structural differences, such as different classification of services or capitalisation policy – this appears to be a very problematic and could give the AER considerable discretion in interpretation of differences</li> <li>• Exceptional circumstances</li> </ul>	<p>Ergon Energy is concerned about the potential for the AER to make unjustified changes to either Ergon Energy's or other DNSPs historical data, which could adversely affect Ergon Energy's revenues and prices under a TFP approach.</p> <p>Ergon Energy considers that any discretion afforded to the AER under the Rules to make adjustments to audited historical data provided by DNSPs needs to be:</p> <ul style="list-style-type: none"> <li>• Limited;</li> <li>• Transparent;</li> <li>• Consistently applied through a clearly defined process; and</li> <li>• Carried out in consultation with the DNSPs.</li> </ul> <p>Ergon Energy considers that adjustments may need to be made for both:</p> <ul style="list-style-type: none"> <li>• Changes that affect individual DNSP's reported data; and</li> <li>• Factors that cause differences in reported data between DNSPs.</li> </ul> <p>Adjustments may need to be made for matters such as changes or differences in:</p> <ul style="list-style-type: none"> <li>• Regulatory obligations between DNSPs;</li> <li>• Cost Allocation Methods;</li> <li>• Capitalisation Policies; and</li> <li>• Service classifications.</li> </ul>

Calculating the TFP Growth Rate	Ergon Energy Response
<p>11. AER could calculate the TFP growth rate using:</p> <ul style="list-style-type: none"> <li>• Average annual growth rate; or</li> <li>• Regression-based trend method.</li> </ul>	<p>Ergon Energy considers that the Rules should specify the basis on which the AER determines which method to calculate the TFP growth rate – this decision should not be left to the AER’s discretion.</p>
<p>12. AER would need to use longest period of data available, which must be at least 8 years.</p>	<p>Ergon Energy:</p> <ul style="list-style-type: none"> <li>• Agrees that the longest period of data available needs to be used and that eight years should be the minimum requirement to ensure that annual variations in expenditure are adequately taken into account;</li> <li>• Considers that all data needs to be of good quality. Ergon Energy notes that the quality of its own data, and that of other DNSPs, has the potential to affect the outcomes under a TFP approach;</li> <li>• Notes that the availability of public data for the implementation of TFP is currently extremely limited. This was identified by Network Advisory Services in its report prepared for the AEMC on the potential introduction of TFP<sup>1</sup>; and</li> <li>• Notes that it is not clear when eight years of good quality data will be available for all DNSPs and therefore when the TFP approach could start to be used. It would not be acceptable to start applying the TFP approach if only some DNSPs have good quality data.</li> </ul>

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<sup>1</sup> Network Advisory Services, “*Issues in relation to the Availability and Use of Asset, Expenditure and Related Information for Australian Electricity and Gas Distribution Businesses*”, August 2009.

Setting the initial cap	Ergon Energy Response
<p>13. AER would calculate <math>P^0</math> in last year of current regulatory control period using a building block approach – this calculation would be made at the end of each regulatory control period, not just the first period in which TFP is applied. TFP would be used to calculate the X factor adjustment for each year of the next regulatory control period.</p>	<p>It is not clear to Ergon Energy from the AEMC’s Design Discussion Paper how, in a practical sense, the building block approach will be applied and the <math>P^0</math> will be incorporated. In particular, Ergon Energy seeks clarification of whether the AEMC’s Straw Man intends that the <math>P^0</math> would be calculated for:</p> <ul style="list-style-type: none"> <li>• The last year of the current regulatory control period, with the X factors being applied from the first year of the new regulatory control period; or</li> <li>• The first year of the new regulatory control period, with the X factors being applied for the second and subsequent years of the period.</li> </ul> <p>Ergon Energy considers that, in calculating the Regulatory Asset Base, the AER should not undertake a prudency review of capital expenditure – rather, actual capital expenditure should be rolled into the Regulatory Asset Base.</p>
Additional design terms	Ergon Energy Response
<p>14. DNSP can nominate term of regulatory control period, and therefore the term for which TFP applies, as it can under the building block approach</p>	<p>Ergon Energy agrees with this provision.</p>
<p>15. DNSP can nominate cost pass through events</p>	<p>Ergon Energy agrees that the TFP approach should allow DNSPs to recover material costs incurred from change events through a cost pass through mechanism.</p> <p>However, the AEMC should clarify how, in practical terms, cost pass throughs would be incorporated under a TFP approach. For example, if a cost pass through involved a DNSP incurring capital expenditure, would it be allowed to recover a return on, and of, capital and how would this be determined and incorporated into its allowed revenues and prices?</p>
<p>16. DNSP can nominate a “capital module” to recover actual efficient, extraordinary and significant increase in capital expenditure during next regulatory control period</p>	<p>Ergon Energy agrees that the TFP approach should include a “capital module” to enable the DNSP to recover an efficient, extraordinary and significant increase in capital expenditure during next regulatory control period.</p> <p>Ergon Energy considers that the capital module should:</p> <ul style="list-style-type: none"> <li>• Be determined on an <i>ex ante</i> basis using forecasts costs so that it can be incorporated into the X factors at the start of the new regulatory control period; and</li> <li>• Not be subject to an <i>ex post</i> prudency review. This is consistent with the way in which capital expenditure is treated under the current Chapter 6 of the Rules.</li> </ul> <p>There will be a need for the Rules to clarify how the AER will determine what is “extraordinary”, and therefore incremental, to the “base” capital expenditure.</p>

Additional design terms	Ergon Energy Response
<p>17. DNSP can nominate “off ramps” at the start of the regulatory control period in order to re-open the Distribution Determination if specific criteria are met – not clear how, in practical terms, this would be applied under a TFP approach given that would need to calculate the return on, and of, capital</p>	<p>Ergon Energy agrees with the provision for a DNSP to nominate “off ramps” at the start of the regulatory control period in order to re-open the Distribution Determination.</p> <p>The nature of the off ramps should be specified in the DNSP’s regulatory proposal.</p> <p>The Rules should specify the criteria for the AER deciding whether or not to accept the off ramp provision.</p>
<p>18. DNSP can nominate the form of the X – it could either be:</p> <ul style="list-style-type: none"> <li>• A fixed X that would apply for the whole regulatory control period; or</li> <li>• A rolling X that would be updated each year of the regulatory control period.</li> </ul>	<p>Ergon Energy agrees with this provision but notes that a rolling X factor may involve more onerous information reporting requirements for all DNSPs within the regulatory control period.</p>
<p>19. There would be no EBSS but there would be a STPIS and DMIS</p>	<p>Ergon Energy:</p> <ul style="list-style-type: none"> <li>• Agrees that it would not be feasible to have an EBSS under a TFP approach given that there would be no operating expenditure building block; and</li> <li>• Recognises that a STPIS and DMIS could apply under a TFP approach.</li> </ul>

Price path under TFP approach	Ergon Energy Response
<p>20. X factor (i.e. allowed rate of change of the price cap) would be calculated as:</p> $\Delta \text{ allowed prices for regulated business} = \Delta \text{ consumer prices} - \{(\Delta \text{ industry TFP} - \Delta \text{ economy TFP}) - [\Delta \text{ industry input prices} - \Delta \text{ economy input prices}]\}$ <p>AER could include an additional term in this formula to make business specific adjustments if the AER considers that the industry TFP growth rate should be adapted to reflect a significant difference in the productivity growth potential of the DNSP.</p>	<p>Ergon Energy recognises that there may be a need to make business specific adjustments but the Rules should define:</p> <ul style="list-style-type: none"> <li>• The circumstances in which the AER can make any such adjustments;</li> <li>• The nature and extent of the adjustments that can be made; and</li> <li>• The process for making the adjustments, including the consultations that the AER must make.</li> </ul>

## Attachment 2 – Response to Comments on Specific Questions sought by the AEMC

Design of an Index Methodology	Ergon Energy Response
1. What should be the correct specification of inputs and outputs to be used to calculate the TFP growth estimate? (p.25)	<p>Ergon Energy believes that the specification of the inputs and outputs to be used to calculate the TFP growth estimate needs to be subject to an independent detailed review, taking into account:</p> <ul style="list-style-type: none"> <li>• International best practice;</li> <li>• Specific factors affecting Australian electricity and gas DNSPs; and</li> <li>• The ability of the DNSPs to measure and quantify the inputs and outputs.</li> </ul> <p>Ergon Energy considers that:</p> <ul style="list-style-type: none"> <li>• A TFP approach must be reflective of the real inputs and outputs, including their relative weightings, of each DNSP. The use of approximations for TFP input and output components should not be utilised in the name of efficiency and expedience and should only be employed following consultation and agreement with the DNSPs;</li> <li>• Any review of TFP input and output components should be open to comments from the DNSPs and that the final form of the inputs and outputs should be determined following consultation and agreement with the DNSPs; and</li> <li>• The AER's Guidelines should provide a basis for the AER and DNSPs agreeing on the component measures to be used in the TFP approach.</li> </ul>
2. Is the proposed set of criteria to identify the correct specification appropriate? (p.25)	<p>Ergon Energy has no objection to the specification criteria identified in the Design Discussion Paper, as an initial starting point.</p> <p>Refer to the response to question 1, above, for further comment.</p>
3. Is a single X factor for all regulated service providers in the sector appropriate? Or, would it be necessary to divide the sector into four subsets according to operating environment conditions or customer density? (p.28)	<p>Refer to Item 7, Attachment 1 of this submission.</p>
Setting the Initial Cap	Ergon Energy Response
4. What would be the impact on service providers' incentives to improve performance under this design example? (p.36)	<p>Ergon Energy has no comment on this question at this stage.</p>

Setting the Initial Cap	Ergon Energy Response
5. What would be the impact on service providers' ability to recover efficient costs under this design example? (p.36)	<p>Ergon Energy considers that the ability of a DNSP to recover its efficient costs will be:</p> <ul style="list-style-type: none"> <li>• Determined to a large extent by the setting of the initial price or revenue cap – primarily the degree to which the initial price or revenue cap reflects the efficient costs of the DNSP;</li> <li>• Influenced by the design of the TFP approach including, but not limited to: <ul style="list-style-type: none"> <li>○ The quality of the information;</li> <li>○ The nature of the TFP growth rate to be applied, i.e. a single growth rate, or different growth rates for urban and rural DNSPs;</li> <li>○ The accuracy of any business specific adjustments;</li> <li>○ The nature of the off-ramps;</li> <li>○ The nature of the capital modules; and</li> <li>○ The nature of the pass through events that are allowed.</li> </ul> </li> </ul>
6. Should the regulator have the discretion to refer to other information, such as forecast costs, when setting the initial price or revenue cap? (p.36)	<p>Ergon Energy considers that any discretion afforded to the regulator under the Rules to refer to other information in setting the initial price or revenue cap needs to be:</p> <ul style="list-style-type: none"> <li>• Limited to information provided by the DNSP in its regulatory information notice;</li> <li>• Clearly defined in the Rules; and</li> <li>• Carried out in consultation with the DNSPs.</li> </ul> <p>Refer to Item 10, Attachment 1 of this submission for further comments on the AER's ability to exercise discretion.</p>

Additional Design Terms	Ergon Energy Response
7. Should a regulatory period longer than five years be set in the NER and NGR for a service provider using a TFP methodology? (p.40)	Refer to Item 14, Attachment 1 of this submission.
8. Are any amendments to the current provisions required to ensure compatibility with a TFP based framework? (p.41)	<p>Ergon Energy considers that a detailed investigation is required to ensure that the TFP approach is compatible with the existing Rules and National Electricity Law once further details of the proposed TFP arrangements are known.</p> <p>There is a degree of certainty and confidence in the current building block provisions, as specified in the Rules, which must not be undermined by the incorporation of additional TFP provisions where inconsistencies and ambiguity in the interpretation of the requirements placed on DNSPs may result.</p>
9. How can the possibility of double counting cost pass through events under a price path with a rolling X be addressed? (p.41)	Ergon Energy has no comment on this question at this stage.

<b>Additional Design Terms</b>	<b>Ergon Energy Response</b>
10. Is a capital module required and, if so, how should such a module be designed for Australia? In particular, should the module use agreed (and prudently assessed) forecast or actual expenditure amounts? (p.43)	Refer to Item 16, Attachment 1 of this submission.
11. Is there a need for an off ramp mechanism to be included in a TFP methodology? Does its use inappropriately reduce incentives? (p.45)	Refer to Item 17, Attachment 1 of this submission.
12. Should a service provider be able to select the form of the X factor? Or, does this provide a level of uncertainty that is undesirable in the operation of a TFP methodology? (p.46)	Refer to Item 18, Attachment 1 of this submission.
<b>Setting the Initial Cap</b>	<b>Ergon Energy Response</b>
13. Is the rationale for allowing business specific adjustments to the X factor correct? (p.54)	Refer to Item 20, Attachment 1 of this submission.