

30 October 2009



Dr John Tamblyn  
Chair  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Dr Tamblyn

**Response: Australian Energy Market Commission's Design Discussion Paper**

ENERGEX welcomes the opportunity to provide comment on the Australian Energy Market Commission's (AEMC) Design Discussion Paper. The provision of comments on this paper should not be interpreted in any way as support for the introduction of Total Factor Productivity (TFP) regulation. ENERGEX remains opposed to the introduction of TFP regulation however we recognise the opportunity to influence the design and thereby minimise the potential impact on our business should the AEMC Review determine there is merit in the TFP proposal.

ENERGEX has also provided some comments on the AEMC's *Perspectives on the Building Block Approach* paper and the Network Advisory Services' (NAS) *Issues in Relation to the Availability and Use of Asset Expenditure and Related Information for Australian Electricity and Gas Distribution Businesses*.

While appreciating the difficulty and complexity involved in developing a TFP methodology, ENERGEX will only be able to fully understand how TFP regulation may potentially operate and therefore the incentives and risks for our business when there is greater certainty around the methodology. Greater clarity on the design specifications and data requirements will be required in the AEMC's Stage 1 Draft Report.

The purpose of Stage 1 of its review of the use of the TFP methodology for pricing and revenue decisions is to assess whether it would promote either the National Electricity Objective (NEO) or the National Gas Objective (NGO) and make recommendations to the Ministerial Council on Energy (MCE) accordingly. Having regard to the efficiency focus of the NEO/NGO, ENERGEX considers there needs to be an efficiency-based significant point of difference between the two methodologies to justify the TFP methodology being incorporated into the rules as an alternative form of regulation. In ENERGEX's view, this point of difference should be that TFP is a discernibly

Enquiries  
Louise Dwyer  
Telephone  
(07) 3407 4161  
Facsimile  
(07) 3407 4499  
Email  
louisedwyer  
@energex.com.au

Corporate Office  
150 Charlotte Street  
Brisbane Qld 4000  
GPO Box 1461  
Brisbane Qld 4001  
Telephone (07) 3407 4000  
Facsimile (07) 3407 4609  
www.energex.com.au

ENERGEX Limited  
ABN 40 078 849 055

more light handed approach and creates more high powered incentives compared to the building block methodology.

At this stage of the AEMC's Review, ENERGEX considers that the TFP methodology as currently specified in partial form will increase administrative/regulatory costs without providing a clear view of how stronger performance incentives and rewards will be created for service providers. As a result, ENERGEX remains of the view that insufficient evidence has yet to be presented that the introduction of TFP as a form of regulation will contribute to the NEO/NGO.

Please do not hesitate to contact me on 07 3407 4161 should you wish to discuss this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L. Dwyer', written in a cursive style.

Louise Dwyer  
Group Manager Regulatory Affairs