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AGL

27 March 2015

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

by email: NSWACTelectricity@aer.gov.au

Dear Mr Pattas,

Re: Alternate approach to the recovery of the residual metering capital costs through an alternate control service annual charge

AGL Energy Ltd (AGL) appreciates the Australian Energy Regulator (AER) providing this opportunity to comment on its *Consultation Paper: Alternate approach to the recovery of the residual metering capital costs through an alternate control service annual charge* (Consultation Paper). Although AGL is concerned with the limited timeframe being provided for consultation, we also recognise the time constraints on the AER and believe their alternate approach can resolve this issue.

As the AER is aware, AGL is a significant retailer of energy with more than 3 million electricity and gas customers and is greatly invested in the development of metering competition as part of the AEMO Power of Choice reforms.

AGL has previously submitted that in order to facilitate the introduction of competition for metering and related services, the AER's distribution network determinations need to:

- remove exit fees, including administrative fees, as they are a significant barrier to entry for future metering competition;
- ensure the annual Alternate Control Services (ACS) charge for metering is cost reflective to enable third party meter and meter data providers the opportunity to effectively compete and provide customers with the enhanced services of smart metering; and
- acknowledge that a market-led approach is predicated on the basis that customers do not pay fees above their current network charges for smart meters, unless they have specifically requested and signed up to a new product or service.

Given these principles, AGL strongly supported the AER draft determinations for the NSW electricity distribution networks which moved the cost of stranded metering assets to the Standard Control Services (SCS) when a competitive meter churn occurred.

AGL understands that this approach may not be appropriate under the National Electricity Rules (NER) and as such, the AER is seeking to determine an alternate approach through this consultation.

<u>Assessment of the Options</u>

AGL believes that Option 2, as described in the Consultation Paper, is the most effective approach.

Option 2 appears consistent with the AER's draft determinations for the NSW electricity distribution networks in that the cost of stranded metering assets is being paid by all NSW network customers with the final quantum dependent on the number of actual meter transfers. The minor adjustment being that this cost is recovered through an additional alternate service fee (unavoidable charge) rather than through the network use of system charges.

In comparison, Option 1 is a distinct move away from the principles described by the AER in its draft determinations because, although the exit fee has been removed or reduced, the annual metering charge is no longer cost reflective.

Under Option 1 detailed in the Consultation Paper, third party metering providers will be competing against a subsidised annual metering charge (avoidable annual charge) that does not contain the cost of any metering assets and is therefore well below cost-reflectivity. It is unreasonable to consider that another metering provider will be able to compete under such circumstances.

In the Consultation Paper, the AER also stated its desired outcome of reducing exit fees is to promote competition. Pursuing Option 1 will curtail the potential for metering competition as effectively as retaining exit fees. This is against the AER's principles, the AEMC's metering rule change and COAG's national policy direction.

If the AER wishes to provide a regulatory framework in its draft determinations that complements the national policy direction of introducing competition for metering and related services then it must progress Option 2.

Furthermore, although AGL recognises the figures provided in the Consultation Paper are only indicative, they do raise questions regarding what costs are being recovered for stranded metering assets. The AER has always highlighted that only the residual asset value of stranded meters is to be recovered which AGL has taken to equate to be the depreciated dollar value of the metering asset (or average for simplicity). The figures in the Consultation Paper suggest otherwise with the fee relativities indicating that any stranded cost recovery includes return on assets as well as return of assets. AGL expects this to be made clear in the Final Determinations.

Administrative Fees

AGL notes that the Consultation Paper does not discuss the issue of administration fees for meter transfer activities which is also important to third party metering competitors. Any incremental administrative fees applied on top of the annual metering charges being considered in the Consultation Paper would severely erode the ability of third party metering providers to enter the market.

The administrative figures proposed by the distribution networks in their revised proposals are excessive for the function performed and are another hurdle from a competition perspective. AGL believe the way in which the administrative fees have been estimated by network businesses (i.e. incremental, bottom–up approach) is unrealistic and is not reflected in other network cost elements. For example, no reduction in operating cost for metering has been proposed despite the fact that metering contestability and meter transfers would likely reduce network costs using this methodology.

Almost all costs of meter transfer will be absorbed by new metering providers and AGL does not believe the distribution networks' will incur discrete, additional labour or capital costs in meeting the minimal requirements.

Yours sincerely

Elizabeth Molyneux
Head of Regulated Pricing
Corporate Affairs