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Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
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MELBOURNE Vic 3000

28 April 2014

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Email: VICelectricity2016@aer.gov.au

Dear Mr Pattas

Re: Victorian electricity distribution businesses - Framework and approach

AGL Energy (AGL) appreciates the opportunity to make this submission in response to the Australian Energy Regulator's (AER) Victorian electricity distribution businesses - Framework and approach.

AGL understands the Framework and approach is simply the first step in a process and is used to determine the broad nature of the regulatory arrangements as prescribed by the National Electricity Rules. This includes the electricity distribution service classification (which services the AER will regulate) and how the AER will set prices for these services.

We note that the five Victorian distribution businesses have requested the AER amend the Framework and approach. AGL supports the review and amendment of the regulatory approach by the AER as it is essential that it caters for a future competitive market for metering services in Victoria.

AGL strongly supports the provision of smart metering using a competitive approach (Market Led) that facilitates customer choice. This is one of the three key reforms proposed in the Australian Energy Market Commission's (AEMC) *Final Report: Power of choice review – giving consumers options in the way they use electricity* and the recently released rule changes¹ that the Standing Council on Energy and Resources (SCER) has submitted to the AEMC.

A contestable approach to metering requires meters and meter data services to be provided by separate entities that are ring fenced, both financially and operationally, from regulated activities.

Further, AGL does not support the retention of the option for distribution businesses to roll out smart meters in their areas, including new and replacement or Demand Side Participation (DSP) programs. This adds a great deal of uncertainty to and detracts from the value proposition for a retailer contemplating a Market Led roll-out that delivers value to customers.

In a scenario where a Smart meter is installed on an 'opt out' basis, there should be no additional financial cost imposed onto consumers over and above those contained in existing metering costs currently faced by consumers (within DUOS charges). However in any

¹ *National Electricity Amendment (Expanding Competition in Metering and Related Services) Rule 2014 and National Energy Retail Amendment (Expanding Competition in Metering and Related Services) Rule 2014*

situation where a customer is required to pay additional costs or charges for smart metering, this should be on an 'Opt In' basis, with informed consent being required from the customer. These events may include:

- a requirement to charge additional fees to recover metering charges (above those already provided under DUOS charges) as part of the meter replacement; or
- as part of the smart meter replacement there is a change to a customer's current retail tariff offering; or
- as part of the meter replacement the retailer wishes to offer new products or services enabled by the meter replacement.

In our view meters should be viewed by customers as part of their retailer's product offering. Meters are, essentially, the means by which retailer services are facilitated. As such, AGL believes the AER needs to review the classification of metering services currently provided by distribution businesses.

This reclassification of metering services is more complicated in Victoria than other jurisdictions because of the derogation that currently makes distribution network businesses exclusively responsible for metering to Victoria's residential and small business consumers. However, this derogation ends at the end of 2016, one year into the relevant regulatory period of 1 January 2016 to 31 December 2020.

Once the derogation ends, there may be a need for some form of transitional arrangements to apply in Victoria and these will be determined through the AEMC Rule Change process and any subsequent deployment of jurisdictional instruments by the Victorian Government. However, it is most important that the Framework and approach approved by the AER is designed to facilitate metering services in Victoria moving to a fully contestable approach from that point to avoid any delays and extensions of existing derogations.

Finally, AGL would like to highlight our concerns with regards to jurisdictional specific policies and derogations that can potentially limit any commercial investment in smart metering. We request that outcomes of this review are nationally consistent and consolidated into the framework being developed by the AEMC.

As the AER's consultation moves forward, AGL would be happy to discuss this issue in greater detail but should you have any immediate queries then please contact Stephanie Bashir on (03) 8633 6836 or myself on 0407 695496.

Yours sincerely



Patrick Whish-Wilson
Regulatory Manager