



8 April 2014-04-08

Mr. Warren Vosper
Senior Analyst | Wholesale Markets
Australian Energy Regulator
Level 38 | 360 Elizabeth Street, Melbourne 3000
By email: AERRoLR@aer.gov.au

Dear Mr. Vosper

Cost Recovery Application – RoLR Preparatory Costs

Introduction

The package of legal instruments known as the NECF are already in effect in South Australia commencing 1 February 2013, and in NSW commencing 1 July 2013. The NECF makes provision for a national Retailer of Last Resort (RoLR) scheme to provide common arrangements across jurisdictions in the event of retailer failure. These arrangements require that:

- The default RoLR exists to ensure customers can be expeditiously transferred from a failed or failing retailer to another.
- There must be one default RoLR per connection point in electricity, and per distribution system in gas.

AGL made application to the AER for RoLR cost recovery for default RoLR preparatory costs in October 2013. Clarification was sought on a number of points in AGL's supporting information at a meeting between the AER and AGL on 18 November 2013.

Background

As a default RoLR, in preparing for a RoLR event, AGL may apply for cost recovery of those costs incurred in preparation for RoLR events. AGL is making application for default RoLR cost recovery for default RoLR preparatory costs on the following basis:

- AGL South Australia Pty Ltd is the default RoLR for electricity in South Australia for customers who are connected to the electricity distribution system of SA Power Networks.
- AGL South Australia Pty Ltd is the default RoLR for gas in South Australia for customers who are connected to the gas distribution system of Envestra
- AGL Retail Energy Limited is default RoLR for gas in NSW for customers who are connected to the gas distribution system of Jemena Gas Networks(NSW) Ltd.

- AGL Sales Pty Limited is default RoLR for gas in NSW who are connected to the gas distribution system of Allgas Energy Pty Limited.
- AGL's application for preparatory RoLR capability is seeking \$48, 917.00 cost recovery.
- AGL proposes to recover costs through the distributor payment determination.



Default RoLR preparatory costs

The National Energy Retail Law (South Australia) Act 2011, Section 166 (3) (a), outlines the rights to cost recovery as default RoLR in preparing for a RoLR event.

This application is limited to these default RoLR preparatory costs, and does not recover costs incurred on and after a RoLR event, upon which AGL may seek further recovery.

For this default RoLR preparation cost recovery application, AGL includes estimates of the quantum of costs it will incur. This application includes:

- A breakdown of the quantum of costs by type;
- For each cost type, supporting documentation which verifies the incurred cost (some of which is redacted in the public version of documents), and;
- Reasons as to why the costs incurred can be considered reasonable in accordance with s. 166(7) of the Retail Law.

A redacted version, protecting commercial in confidence and propriety information, is also provided for the purposes of the AER's public consultation.

Breakdown of quantum of costs by type.

AGL has provided RoLR Scheme Preparation costs in the form required by the AER in its completed spreadsheet. For the purposes of comprehension, and completion, AGL has provided a summary of these costs in the following table.

Cost type	Description	Cost incurred (\$)	Supporting documentation
Implementation/Set up costs, & Labour	Development of ROLR operational plan	\$7,369.89	Business Analyst working time spent 18.42 days @ \$400 per day.
Labour	Preparation for SA gas ROLR testing.	\$6,000.00	Regulatory Manager, 10 days @ \$600 per day. <ul style="list-style-type: none"> • Participation in industry forums • Setting up environment connectivity • Conducting test cases and managing defects

System enhancement cost (See below)	Automation tools for creation of customer, site and contract data.	\$25,000 (cost met by AGL)	Commercial in Confidence
System enhancement cost (See below)	System updates to accommodate T900 automation.	\$35,104.00	Commercial in Confidence
Communications	Development of copy for two required ROLR letters: (a) For contact customers of the failed retailer advising them of the ROLR event, their rights, and their rates, and; (b) For AGL customers with a pending transfer to the failed retailer.	\$1,575 (Cost met by AGL)	Commercial in Confidence (Blue Group Invoice) <ul style="list-style-type: none"> • Development of copy • Copywriting • Project management
Communications	Cost of having ROLR letters set up in readiness at mail house, to meet 25 business-day requirements.	\$500.00	Commercial in Confidence <ul style="list-style-type: none"> • Mail house set up • Mail house printing and lodgement • Letterhead
Labour	Work undertaken to assemble incurred and estimated costs for ROLR cost recovery	\$795.56	Business Analyst 1.99 days @ \$400 per day).
Labour (Vendor)	APA Bilateral Testing	\$11,261 (Cost met by AGL)	Commercial in Confidence
	Total	\$87, 605.45	
		\$37, 836.00	Proportion of costs met by AGL
		\$49,769.45	Subject of this cost recovery application

System Enhancement Costs

The Auto Technical Master Data (TMD) requirements and update for RoLR has been provided in technical detail in the vendor’s functional specification document provided commercial in confidence to the AER. The specification is explained in the following general terms.

The system enhancements (T900 Automation Costing) \$35,104.00 costs provide for:

- A new report to extract the T900 file fields from our source system of any Gas site for which AGL is FRO at the time of execution.
- A new cross reference table has been created as part of this development to store DPI prefixes against FRO, used to determine the ROLR.
- An interface has been developed for transferring files from our source system to MIBB using FTP.
- Testing costs
- Unit, system integration, performance, regression and user testing of all interfaces to ensure connectivity.
- Environment/AGL business costs that includes management, delivery, testing and maintenance of the process.
- Format specific file creation (from the csv files received from the market)
- Creation of a new custom program to process the file entries and to automatically create new AGL accounts
- Creation of a new data record validation functionality
- Creation of a new exception management functionality
- Creation of a new data redundancy check (to ensure no duplicate account exists in the system)
- Enable account creation programs to collect NMI/MIRN standing data from the market (SPID 2)

Additional end user training is in these costs, including, but not limited to;

- Creating the trigger file and save it on desired location,
- Uploading to the application server,
- Executing the program.

AGL does currently have some comparable functionality, but only for large commercial and industrial customers (tail accounts) that are unrelated to RoLR obligations. This existing 'Auto-file upload' function was used to provide the benchmark for the cost of automating RoLR file upload. Whilst leveraging the existing functionality, it will still require some enhancements to cater for RoLR file formats, etc.

Once implemented, this will be a new functionality specifically for RoLR file upload.

Why the costs incurred can be considered reasonable in accordance with s.166(7) of the Retail Law.

The system changes are operational imperatives to meet our obligations as a default ROLR, and the costs that are included in the cost recovery application serve no other business purpose. In this case, as per NECF guidance, the registered RoLR should be provided with a reasonable opportunity to recover the reasonable costs that it incurs with respect to the RoLR scheme.

The exception to this is those system changes nominated above where the cost is highlighted as being met by AGL. Whilst each of these costs has been triggered by the default RoLR requirement, the NECF suggests that the RoLR will itself bear some costs in relation to the scheme.

These types of costs are not subject to a discrete competitive tender or similar, and one was not undertaken. This is because each activity forms part of a specialist service that are already contracted to us. Under these agreements, each of which has of course been negotiated by AGL, these costs are constrained by the earlier competitive tendering for the provision of a bulk of services.

AGL has incurred these costs because of the need to comply with the energy law as a default RoLR. Given that these requirements are obviously not discretionary, AGL is

required by law to provide RoLR services and concomitant capability. Similarly an AGL business case is not required where the changes are for compliance.



This is good decision making when the comparatively small cost of the discrete RoLR requirements, along with their compulsory nature, means resources are not wasted in unnecessary exploration of theoretical options (we only have one IT system for millions of customers that can deliver the RoLR requirements, for example; so hypothesising a second exists at a lower cost is pointless).

The NECF suggests that the recovery of costs should allow for a return commensurate with the regulatory and commercial risks with respect to the RoLR scheme. AGL is not seeking a return as potentially provided for in the NECF; only the cost recovery of direct costs.

This is the fullest extent of explanation that can be provided in regard to how the RoLR preparatory costs incurred can be considered as reasonable in accordance with s. 166(7) of the Retail Law.

Cost Recovery Proposal

AGL proposes to recover costs through the distributor payment determination. The proposed quantum of the distributor payment is to be split equally between each of the four affected networks. The proposal is equal division because the RoLR preparatory costs are all fixed costs and independent of customer volumes. This equates to in the order of \$12,000 each distributor business; clearly not a material impact.

AGL proposes that each distributor pay 100% of the distributor determination (RoLR costs) amount within 30 days of the distributor determination date. AGL proposes that the determination amount is negligible, and not material to the attendant distributors, and that the matter by which the determination costs are recovered by the distributor be left to the AER.

Additional information

Should you have any questions or wish to discuss matters in relation to this application, please contact myself on (03) 8633 7440 or David Markham, Senior Regulatory Adviser on (03) 8633 6510 or at david.markham@agl.com.au.

Yours sincerely,

A handwritten signature in blue ink that reads 'N Wallis'.

Nicole Wallis

Manager Retail Markets Regulation