

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

Response to AER consultation paper on an alternative approach to the recovery of residual metering capital costs

Thank you for the opportunity to respond to the AER's Consultation paper "Alternative approach to the recovery of the residual metering capital costs through an alternative control services metering charge" (**consultation paper**). ActewAGL Distribution appreciates the ongoing efforts of the AER in attempting to address issues raised in response to the metering component of the "Draft decision, ActewAGL distribution determination, 2015/16 to 2018/19", November 2014 (**draft decision**).

It should be noted at the outset that ActewAGL Distribution's comments on this consultation paper are provided without the benefit of critically evaluating the AEMC's publication, released just yesterday, of the draft rule and draft determination for expanding competition in metering and related services.

In the draft decision the AER rejected ActewAGL Distribution's proposal that, depending on the outcome of the AEMC's Rule change process, an exit fee should be introduced to recover the costs associated with customers switching to alternative meter providers when the new Rules and arrangements for contestable metering are implemented. The AER instead proposed to classify residual metering capital costs as a standard control service and recover these costs through network tariffs, via a b-factor term in the standard control services control mechanism. The AER also proposed tolerance limits on the annual b-factor adjustment.

In its revised regulatory proposal ActewAGL Distribution maintained its position that exit fees are the most transparent, direct and appropriate way to recover the costs associated with customers switching to alternative meter providers in a contestable metering market. ActewAGL Distribution argued that the AER's draft decision approach of recovering residual metering capital costs via an annual b-factor adjustment was not permitted under the Rules. Moreover this approach would involve significant risk that residual costs could not be recovered. The smearing of cost recovery across all network users (via a standard control services charges) would also be inconsistent with the objective of encouraging efficient supply and use of metering services.

Before commenting further on the alternative options proposed by the AER, ActewAGL Distribution reiterates that its preferred approach is as outlined in in this revised regulatory proposal and exit fees are the most transparent, direct and appropriate way to recover the costs associated with customers switching to alternative meter providers in a contestable metering market. Exit fees are consistent with the pricing principles set out in clause 6.18.5 of the National Electricity Rules. Alternatives which involve smearing of costs across customers are unlikely to be consistent with these principles, which apply to both alternative control and standard control services.

It is important that the AER explains how its final decision for the 2015/16 to 2018/19 ActewAGL distribution determination reconciles with the proposed rule changes set out by the AEMC. In particular, based on a preliminary review of the proposed rule change released yesterday, there is no explicit prevention by policy and rule makers of exit fees. In fact the proposed rule change provide further guidance to the AER, by establishing the criteria that the AER would need to have regard to, when determining the magnitude and components of the exit fee.

In the event that the AER continues to reject exit fees, the options set out in the consultation paper appear to address some of the issues associated with the draft decision. For example, the removal of the tolerance limits that would apply under the draft decision addresses, to some extent, the risk that the residual costs could not be fully recovered.

The AER says that the alternative approach in the consultation paper “ensures that the businesses recover the cost of their sunk investment.” ActewAGL Distribution agrees that the alternative approach that the AER adopts in the final decision must provide businesses with certainty regarding recovery of the cost of their sunk investment. However, ActewAGL Distribution is concerned that cost recovery is still not ensured under the AER’s proposed approach. This is because under the AER’s alternative approach the recovery will spread into the next regulatory period. Therefore there is a risk that, once metering contestability has been established, the AER may adopt a different treatment of residual costs, and metering more broadly, for the next regulatory period, and the businesses may not be able to fully recover their residual costs.

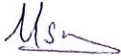
ActewAGL Distribution suggests that, to address this risk, the AER should specify that option 1 will allow full recovery of the value of the metering RAB within the upcoming regulatory period – for ActewAGL Distribution, within the 4 years from 1 July 2015. As a result, at the start of the next regulatory period (1 July 2019) there would be no metering RAB.

ActewAGL Distribution prefers option 1 over option 2. Option 1 would be easier and less costly to administer. Furthermore, as the AER notes, option 1 involves less a cross subsidy from churned customers to remaining customers. Option 2 involves more of a cross subsidy towards churned customers. Avoiding cross subsidies is important if the objective of encouraging efficient supply and use of metering services is to be achieved.

In summary, if the AER continues to reject exit fees and instead adopts an alternative approach as set out in the consultation paper, ActewAGL Distribution would prefer option 1 over option 2. While ActewAGL Distribution has some concerns about both options, option 1 provides a basis for a workable approach to recovery of residual metering capital costs. ActewAGL Distribution proposes that option 1 be refined to allow full recovery within the remaining 4 years of the regulatory period. Without this refinement, businesses will face unreasonable uncertainty about whether and how their residual costs will be recovered beyond the upcoming regulatory period.

Please contact me on 02 6248 3806, or email usman.saadat@actewagl.com.au, if you wish to discuss our response to the consultation paper.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Usman'.

Usman Saadat
A/g Director Regulatory Affairs and Pricing