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Mr Chris Pattas
General Manager – Network Investment and Pricing
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

Dear Mr Pattas

Request to the AER to extend time period for submission of a potential pass through application - Expanding Competition in Metering and Related Services Rule Change

I am writing to you to seek an extension from the AER on the time limit fixed in the National Electricity Rules (NER) for the submission of a statement regarding a positive or negative change event.

As you would be aware, the AEMC published the Expanding Competition in Metering and Related Services (Metering Rule) Rule on 26 November 2015. However the substantive effect of this Rule does not commence until 1 December 2017. This Rule fundamentally affects the provision of type 5-6 metering services which are currently provided by Ausgrid and for which the AER has made a determination on the prices that Ausgrid can charge for these services for the regulatory period 2015 to 2019.

Ausgrid is in the process of implementing this Rule and anticipates that there will be cost impacts to Ausgrid. Consequently in implementing the Metering Rule, Ausgrid needs consider the pass through framework under the National Electricity Rules (NER). A very high level and preliminary assessment of the effect of the Metering Rule indicates that this Rule **may** fall within the scope of a service standard event or a regulatory change event. Under the definition of the 'standard service event' it may be open to interpretation that this definition would require Ausgrid to submit a written statement within 90 business days of 26 November 2015, the date that the Metering Rule was published.

We note that a critical requirement of the pass through framework is that the costs impact resulting from the relevant event must be material. This requirement entails a quantification of the costs impact of the relevant events and an assessment of whether these costs are material.

The costs impact of the Metering Rule can be categorised broadly as:

- Additional operating expenditure to set up / amend IT systems and processes to implement the Metering Rule and to maintain these systems and processes, which will need to be in place before full meter competition takes place.

- The possible reductions in capital expenditure required to provide type 5-6 Metering Services at least for the period 1 December 2017 (when the Metering Rule takes effect) to 30 June 2019 when the AER's distribution determination for Ausgrid ends. We understand that retailers are planning roll outs earlier than December 2017, but the timing and quantities are highly uncertain.

These changes in expenditures may occur before and after 1 December 2017 when the Metering Rule takes effect. As these costs have not been accounted for in the AER's distribution determination for Ausgrid for the 2015-19 regulatory period with respect to type 5-6 metering services; the pass through provisions must therefore be considered to assess whether these cost impacts need to be recovered or returned to customers for the period December 2017 to June 2019.

At this stage it is not possible for Ausgrid to assess or quantify these costs impact with any degree of certainty to enable a proper assessment of whether a positive or negative change event has occurred. This is because the implementation of the Metering Rule (and hence associated cost impacts) is dependent on the resolution of a number of issues, guidelines and processes that are necessary to give effect to this Rule. The timing of customers take up is also difficult to predict. Full details on why it is not possible for Ausgrid to quantify these costs impact with any degree of certainty is provided in Attachment A.

Ausgrid has had a number of discussions with AER representatives and we agreed that a prudent way forward would be for the AER to extend *the time limit for Ausgrid to submit a statement, under clauses 6.6.1(c) or 6.6.1(f) of the NER, to 90 business days after 1 December 2017 when* **the** *Metering Rule takes substantive effect*. The AER has this discretion under clause 6.6.1(k) of the NER if the AER is satisfied that the difficulty of assessing or quantifying the effect of the relevant pass through event justifies the extension and Attachment A outlines the factors that are currently hindering our ability to properly quantify the cost impacts of the Metering Rule.

Extending the time limit to 90 business days after 1 December 2017 would allow Ausgrid to be in a firmer position to understand the cost impact of the Metering Rule and form a proper view on whether a positive or negative change event has occurred. It also avoids the need for a 'rolling' time extension.

We note that the AER had previously exercised its discretion under this provision of the NER to:

- To extend the time limit by 6 months for Ausgrid to consider the impact of the sale of Ausgrid (then EnergyAustralia) retail arm (retail separation event).
- To extend the time limit by 45 business days for Ausgrid to make an application in respect of the Solar Bonus Scheme.

Consistent with the AER's previous decisions, the granting of an extension would have no implications for the AER's assessment of the merits of a cost pass through application (if one is submitted or required to be submitted by Ausgrid) or any obligation on Ausgrid to submit a pass through application.

We would appreciate written confirmation of the extension as specified above as soon as reasonably practicable, noting 90 business days from 26 November 2015 is about 7 April 2016. If you would like to discuss our letter further or arrange a meeting with Ausgrid representatives please contact Son Truong Vu on (02) 9269 4360.

Yours sincerely

JOE PIZZINGA
Chief Financial Officer

Attachment - Difficulty of assessing or quantifying the effect of the Expanding Competition in Metering and Related Services Rule Change

Attachment - Difficulty of assessing or quantifying the effect of the Expanding Competition in Metering and Related Services Rule Change

We note that a critical requirement of the pass through framework is that the costs impact resulting from the relevant event must be material. This requirement entails a quantification of the costs impact of the relevant events and an assessment of whether these costs are material.

The costs impact of the Metering Rule can be categorised broadly as:

- Additional operating expenditure to set up / amend IT systems and processes to implement the Metering Rule and to maintain these systems and processes, which will need to be in place before full metering competition takes place.

- The magnitude of reductions in capital expenditure required to provide type 5-6 Metering Services at least for the period 1 December 2017 (when the Metering Rule takes effect) to 30 June 2019 when the AER's distribution determination for Ausgrid ends. We understand that retailers are planning roll outs earlier than December 2017, but the timing and quantities are highly uncertain.

However, at this stage, it is not possible for Ausgrid to quantify these costs impact with any degree of certainty for the following reasons:

1. During the period of 26 November 2015 (the making of the Metering Rule) to 1 December 2017 (Metering Rule takes effect), market bodies, jurisdictional governments and regulators and industry have a substantial implementation program to complete before the 1 December 2017 commencement date, including (but not limited to):

    a) The Information Exchange Committee and the Australian Energy Market Operator (AEMO) must review and update their procedures by 1 September 2016.

    b) Businesses will need to update their internal systems and processes to meet AEMO procedures and NER minimum services specification requirements. This is likely to include information technology (IT) requirements such as new Business to Business (B2B) functionality to meet the minimum service specifications requirements of the advanced metering Shared Market Protocol (SMP). This could include a requirement of capability to perform near instantaneous transactions, web services and secure peer-to-peer capability.

    c) The AER must develop and publish distribution ring-fencing guidelines by 1 December 2016, which may impact on operating structures.

    d) AEMO must develop and publish information regarding the application process for registration as a Metering Coordinator (MC) by 1 March 2017 and jurisdictional safety regulators must review and update their safety requirements, in particular for remote disconnection/ reconnection which, in NSW, is a resultant outcome of the Rules. These requirements may impact on IT systems and have enforcement, compliance and administration costs on distributors.

    e) Ausgrid has about 150,000 load control devices that are integrated into the customer's meter. These load control devices have been deemed as an alternate control service, whereas the stand alone devices have been deemed as standard control services. Where these meters are removed as part of meter competition, this may require expenditure on Ausgrid's part to install a standalone device where the retailer does not offer an equivalent product.

    f) Retailers and distributors must amend their standard contracts by 1 December 2017, resulting in administration and legal costs.

g) Retailers have already advised us that they have plans to roll out smart meters ahead of the 1 of the December 2017 start date, but the timing and volume is highly uncertain. This will impact the size of our capital programs, but by how much is dependent on how aggressive those roll outs are.

2. As the result of the Metering Rule, after 1 December 2017, Ausgrid will not undertake any proactive and reactive replacement capital expenditure for metering services as approved by the AER in the distribution determination for 2015-19 regulatory period. It is however not possible at the present time to quantify any potential reduction in capex spend for the period 1 December 2017 to 30 June 2019 as this depends on the capex spent profile for the period up to 1 December 2017. It is only once the Ausgrid's capex program for the period 1 July 2015 to 1 December 2017 is actually known that we can quantify the capex amount that may not need to be spent after 1 December 2017 as the result of the Metering Rule.

3. We note that in its final decision on the SA Power Networks (SAPN) when the AER was considering SAPN's proposed step change relating to the impact of metering contestability on meter reading costs[1] the AER stated that it does not accept this step change as the uncertainty of churn rates makes it difficult to forecast the cost impact. The AER also stated that 'we consider that a cost pass through event would be a more appropriate mechanism for addressing any under or over recovery in costs associated with an expansion of metering contestability'[2].

   Ausgrid also faces a similar issue in terms of quantifying the opex cost impacts of the Metering Rule as this impact depends on the speed of meter roll out programs which are uncertain. We are not able to be forecast how quickly smart meters will be rolled out with any degree of confidence at present. The speed of retailer led roll outs will have a direct bearing on reductions in our operational costs. There will also be a dis-economies of scale effect as the relatively fixed operating costs of meter reading and IT back office costs will have to be spread over a reduced numbers of regulated meters. So, although total operational expenditure for the business will decrease overall with a reducing regulated meter base, the operating cost per meter will actually increase. The magnitude of this diseconomy effect is unclear.

   For example, in one residential street where say 20 per cent of the meters have been upgraded to smart meters, economies of scale will erode; where one meter reader would have read every meter in the street, now he/she only reads 80 per cent of those meters, so the meter reading cost per meter goes up slightly. Ausgrid will also no longer be undertaking the same volume of manual disconnection/reconnection services and will need to augment existing processes and market systems (including ongoing maintenance) to address the additional requirements to facilitate the new and updated B2B procedures.

[1] Attachment 16 – Alternative control services | SA Power Networks determination 2015–20, p 16

[2] ibid