

26 March 2015

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

Email: NSWACTelectricity@aer.gov.au

Dear Mr Pattas,

RE: Consultation Paper – Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge

The Energy Retailers Association of Australia (ERAA) is grateful for the opportunity to provide comment to the Australian Energy Regulator (AER) on the alternative approach to the recovery of the residual metering capital costs through an alternative control services (ACS) annual charge (**Consultation Paper**).

The ERAA represents the organisations providing electricity and gas to over 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

In the NSW draft decision, the proposed methodology to compensate the NSW distribution businesses (the NSW Distributors) for the residual capital value of metering assets was achieved through the transfer of this value to the standard control service (SCS)¹. The ERAA supported this methodology and believes the proposal would have reduced the barriers to upgrading the metering installation fleet, and accelerating achievement of the public benefits of greater demand side participation. Further, the methodology promoted an environment which facilitated the development of competition in metering and related services.

The Consultation Paper states that Actew AGL's primary objection to the proposed methodology is that it is largely impermissible because assets cannot be added to the SCS Regulated Asset Base (RAB)². The ERAA is extremely concerned that this consultation is taking place very late in the NSW determination process and as a consequence stakeholders have been provided a limited timeframe to digest this revised methodology and provide input. As a result, the ERAA and its members have not had sufficient time to consider the claim that the proposed methodology is legally impermissible, however we believe that this assertion would have been known to Actew AGL and the networks from a much earlier point in time and could have been raised previously with other stakeholders to allow for greater time to consider the issue and alternatives.

The Consultation Paper proposes two alternative options which the ERAA provides comment on below.

¹ AER Draft decision, Ausgrid, Endeavour Energy and Essential Energy, attachment 16

² AER Consultation Paper, Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge, p 4.



Option 1

The ERAA does not believe option one is viable as it is contrary to the promotion of competition in metering and represents a complete reversal of the logic underpinning the AER's most recent Draft Decisions which sought to remove or reduce exit fees and ensure that annual metering charges were cost reflective.

The AER was previously comfortable with smearing the residual cost of existing meters across all customers via distribution use of system charges but now appears to favour option one based on the pretext that it minimises cross subsidies. Although we agree that option one provides an administratively simpler approach to providing for capital cost recovery of stranded regulated meters, it no longer supports a competitive metering environment.

The ERAA note that the AER in their draft decision, set out to provide a regulatory framework which supported a market-led rollout of smart meters and complemented the national policy direction to introduce competition in meter provision and meter data services. This option does not support this policy and will negatively impact the introduction of competition in metering.

Option 2

Option 2 is the ERAA's preferred option outlined in the Consultation Paper as it is most closely aligned with AER's draft NSW decision. However, the ERAA note that greater clarity on the numbers should be provided in detail and in advance of a final decision, as the uncertainty of a change in annual charge under this option could be quite significant.

Whilst we agree this option is more administratively complex as a result of the annual meter adjustments, it provides for the same economic outcome as the draft decision, albeit that the residual meter value is captured via an additional ACS fee (i.e. the unavoidable meter charge) rather than through network charges. In addition, and most importantly, the ERAA believe this option will support the continuing development of contestability in metering and related services.

Consistent with the treatment of other regulatory assets, the ERAA seeks confirmation that both the metering asset base and the residual asset base will be depreciated over an appropriate remaining asset life. For this reason, we expect the recoverable amount will be substantially less over time. This is predicated on the assumption that all future meter replacements are treated as operational expenditure as this will guarantee that the respective metering asset bases will be full depreciated in a known timeframe.

Other options and considerations

The reclassification of metering types 5-6 as ACS from SCS is an important change in the context of the Australian Energy Market Commission's (AEMC) Rule Change process to support metering contestability and with it, a market-led smart meter rollout.³ The removal of high exit fees and a clearly defined and efficiently set of metering charges are both necessary to promote effective competition in metering.

The ERAA has not had adequate time to consider fully other alternative options or examine the legality of the original methodology. However, an approach the AER may wish to investigate is whether residual metering costs transferred from the metering regulatory asset base (RAB) to the SCS RAB during a regulatory period can be considered to be 'actual capex' for the SCS RAB, which will be recovered in SCS charges for subsequent periods. This could be made to work financially for distributors by applying a time value of money for any difference between the date when the metering capital costs are transferred and their recovery.

³ AER Issues paper Qld Electricity Distribution regulatory proposals, p.40

The ERAA also notes that the Consultation Paper does not cover the proposed incremental administration fees which was not fully ruled out in the AER's draft NSW decision, and if approved, will be an additional and significant barrier to metering competition. Any administration fee should be included in the businesses OPEX once the expenditure has been clearly substantiated and deemed efficient. The ERAA calls on the AER to make their position on incremental administration fees clear in advance of a final NSW determination. The ERAA does not support the application of administration fees associated with a meter transfer and advise the AER to consider the potential impact of such a proposal on metering competition.

On the basis of these issues outlined in this submission, the ERAA recommends that the AER consult with the AEMC urgently to determine a suitable methodology that promotes competition in metering and related services that is within the current rules and accommodates the draft AEMC metering contestability rule change. Should no appropriate solution be found, in our view the AER must require the ability to reconsider the recovery of those charges post the implementation of the AEMC's final rule change.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia