3 July 2015

Mr Sebastian Roberts
General Manager - Networks Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Roberts

RE: SUBMISSION TO AER PRELIMINARY DECISION QUEENSLAND ELECTRICITY DISTRIBUTORS

Origin Energy Electricity Limited (ABN 33 071 052 287, "Origin") appreciates the opportunity to provide input to the Australian Energy Regulator's (AER) Preliminary Decision in response to the regulatory proposals submitted by the Queensland electricity Distribution Network Service Providers (DNSPs) under the National Electricity Rules to determine their revenue allowances for the period 2015-20.

Origin agrees in principle with the approach taken by the AER to establish efficient costs with respect to operating and capital expenditure using benchmarking techniques as provided for under the Rules. The AER's approach has delivered significant but appropriate cost savings for consumers.

Notwithstanding, we also consider that predictability is an important element of the regime. We are disappointed that AER has lowered the operating cost efficiency benchmark. Given the materiality of this reduction, and the impact of this change on the level of approved operating costs, we strongly believe that stakeholders should have consulted prior to the decision.

With specific reference to the Queensland businesses, this decision has resulted in the full approval of the base operating costs proposed by Energex and only modest reductions to Ergon's proposed costs. This is despite the AER's independent consultant identifying material inefficiencies in a number of operating cost categories.

As a result, the decision to apply less onerous efficiency benchmarks will limit the full scope of efficiencies that could otherwise be extracted from corporate and non-network support costs in this regulatory period.

In terms of the AER's approach to the weighted average cost of capital, Origin maintains its view that the AER has adopted a balanced and pragmatic approach that provides certain and predictable outcomes for investors and provides a balance between the views of consumer groups and the network businesses.

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Finally, Origin has concerns regarding the AER's revised position with respect to the structure of metering charges. Metering technology is interlinked to network tariff reform, which underpins the achievement of long run efficient investment in network infrastructure. We consider that the AER has not undertaken sufficient and robust analysis to fully understand the long-term implications of its decision on metering contestability or indeed if there is a more preferable approach. Where the AER feels it is constrained in making a decision that is in the long term interest of consumers, we believe this impediment can still be removed as a matter of priority through the AEMC metering contestability Rule change process before it is finalised.

If you have any questions regarding this submission please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely

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Response to the AER's Preliminary Decision for Energex and Ergon Energy for the regulatory control period 2015-19

Origin Submission

3 July 2015

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1 Forecast Capex

1.1 Summary

- Do not support the level of reductions to overhead costs. The AER's decision does not extract the full scope of possible efficiencies.
- Support the AER decision to adopt risk based and relevant unit cost forecasts to determine the capital expenditure allowance in preference to trending historic spends.
- Support the AER's proposed reductions to augmentation and replacement capital expenditure.

1.1 Capitalised Overheads

Ergon proposed a capex program of $3,397.0 million ($2014-15), which represents a 33% increase relative to actual expenditure for 2010-15. This was made up of $2,379.9 million ($2014-15) of direct costs and $1,017.1 million of overheads. The overhead component therefore represents 30% of total capital expenditure.

In Energex's case, it proposed a program of $3,239.6 million ($2014-15). This was made up of $2,339.2 million of direct spend and $900.4 million of capitalised overheads[1]. The overhead component represents 28% of total expenditure.

We agree with the AER that the relative size of capitalised overheads should increase or decrease relative to movements in total expenditure.

Origin understands that total overheads are allocated to both direct operating and capital expenditure consistent with the approved Cost Allocation Methods (CAM). The CAMs therefore provide for the full allocation and recovery of total overheads from direct expenditure.

The AER has approved a capital expenditure allowance for Ergon of $2,182 million.[2] As a result of a $1,106 million ($2013–14) reduction in Ergon Energy's direct capex that attract overheads, the AER has imposed a reduction of $55.3 million ($2013–14) in capitalised overheads.[3] Therefore, total approved capitalised overheads are $961.8 million.[4] This equates to an overhead rate of 44%, an increase on Ergon's proposed rate of 30%.

For Energex, the AER has approved a capital expenditure allowance of $2,361.5 million. As a result of an $801.2 million ($2013–14) reduction in Energex's direct capex that attract overheads, the AER has imposed a reduction of $76.9 million ($2013–14) in capitalised overheads.[5] Therefore, total approved capitalised overheads are $823.5 million.[6] This equates to an overhead rate of 35%, an increase on Energex's proposed rate of 28%.

While we recognise that changes in total spend to overheads are not linear, we are particularly concerned at the increase in the capitalised overhead rate, particularly in light of the findings of the AER's consultants that Energex and Ergon's total overheads are high relative to other service providers and that Ergon appears to have the highest overheads of all service providers.[7] For these reasons, we consider the level of capitalised overheads warrant further scrutiny.

[1] AER, Preliminary Decision, Energex determination, Attachment 6 – Capital Expenditure, p.10.
[2] AER, Preliminary Decision, Ergon determination, Attachment 6 – Capital Expenditure, p. 8.
[3] AER, Preliminary Decision, Ergon determination, Attachment 6 – Capital Expenditure, p. 90.
[4] Calculated as $1,017.1 million less the $55.3 million overhead reduction.
[5] AER, Preliminary Decision, Ergon determination, Attachment 6 – Capital Expenditure, p. 90.
[6] Calculated as $900.4 million less the $76.9 million overhead reduction.
[7] AER, Preliminary Decision, Energex determination, Attachment 7 – Operating Expenditure, pp. 139-140.

1.2 Augmentation Capex

As noted in our submission in response to the proposals lodged by the businesses, there has been significant investment in the respective networks over the last 10-15 years in response to prescriptive network security standards and growing demand.

However, the prescriptive security standards that were previously in place have been lessened and demand is expected to either fall or remain relatively stable for the foreseeable future. The combination of significant historic investment and lessening demand and security standards has resulted in an outcome where utilisation levels in the networks are at historically very low levels.

Given these circumstances, Origin supports the AER's approach to consider the risks and costs associated with current operating conditions rather than simply applying trend forecasting.

However, Origin understands that a key decision of the Government initiated independent reviews was that responsibility for network security standards should reside with the respective Boards and Management of the businesses.[8] We reiterate our position from earlier submissions that it is not entirely clear how the businesses have determined the security standards that they have included in their asset management framework and whether these reflect customer preferences, especially form a willingness to pay perspective.

Origin recognises that both Energex and Ergon have proposed significantly lower augmentation expenditure in response to changes in their respective operating conditions. However, we note the findings of the AER's consultant which found that the business' risk assessment approaches are overly conservative and that expenditure has not been adequately linked to a prudent needs-driven analysis. As a result, these deficiencies are likely to result in expenditure forecasts that are overstated.

The AER's consultant has estimated a range of the over-estimation bias for each augmentation cost category. For Energex, overestimation for growth augmentation was in a range of 5% to 15%, for power quality it was 25% to 50% and for reliability it was 50% to 80%. For Ergon, overestimation for sub-transmission was in the range 0% to 5% and for distribution 10% to 20%.

The AER concluded that the midpoint is reasonable in the absence of evidence pointing towards the top or bottom of the range.

While we broadly support the approach taken by the AER, Origin considers that the adoption of reductions closer the top of the range provides a greater incentive for Energex and Ergon to respond by putting in place prudent planning techniques and demonstrating that these techniques are evidence based and operating as intended prior to the AER's Final Determination.

1.3 Replacement Capex

As stated previously, the changed operating environments faced by the businesses going forward will have a material impact on network capability and therefore ongoing replacement and maintenance costs. Origin considers that the proposed replacement capital programs are high when taking into account the changed operating conditions.

We agree with the AER position that in the absence of evidence to demonstrate otherwise, to the extent that forecast unit costs are higher than historical unit costs, that historic unit costs are more likely to reflect a realistic expectation of future input costs.

We also note the finding of the AER's consultants that observed that the objective of the business' regulatory proposals was to cap network prices to CPI (or less). We also note the consultant's views

[8] Independent Review Panel on Network Costs, Electricity Network Costs Review Final Report, p. 42.

that pre-defining an outcome and effectively back-solving for a program of work can result in levels of expenditure than may be either too high or too low.

The AER's consultants also found that Energex has not provided sufficient justification of risk based prioritisation. As a result, the consultant concluded that the overall capex program was not optimised in relation to risk. With respect to other replacement expenditure, the AER's consultants found that a number of these programs appeared to align with the timing of the revenue reset cycles and there was an absence of adequate forecasting rigour.

With respect to Ergon Energy's forecasting methodology, the AER noted that it predominately relies upon a bottom-up build (or bottom-up assessment) to estimate the forecast expenditure and that the top-down constraints imposed by their governance process are insufficient for it to be able to conclude that the forecasts are prudent and efficient. We agree bottom up approaches have a tendency to overstate required allowances as they do not adequately account for inter-relationships and synergies between projects and that simply aggregating such estimates is unlikely to result in a total forecast that will reflect the capex criteria.

For these reason, Origin supports the approach taken by the AER to determine allowance replacement costs and supports the AER's findings.

2 Forecasts Opex

2.1 Summary

- Do not support the AER's decision to lower the benchmark efficiency threshold.
- Do not support the AER's decision not to consult before making this change given the material implications of the decision.
- Seek greater clarity regarding the relationship between feed-in-tariff costs and adjustments to determine base opex.
- Maintain our position that the inefficiencies in the category analysis identified by the AER's consultants warrant reductions to overhead and non-network costs.

2.1 Base Opex

To determine the efficiency of the forecast opex put forward by Energex and Ergon, the AER has determined alternative estimates based on the benchmarking methodology set out in its Expenditure Forecast Assessment Guideline.

The initial step in this process is to develop a raw efficiency score applying the AER's preferred economic benchmarking model.[9] This model delivered raw efficiency scores of 61.8% for Energex and 48.2% for Ergon.

The next step is to compare the raw efficiency scores of the businesses with a benchmark. As part of the AER's Draft Determination for NSW, it adopted a benchmark based on the average efficiency scores of businesses in the top quartile.[10]

However, for its Final Determination for NSW and its Preliminary Decision for Queensland, the AER considered that was appropriate to adopt a cautious approach and to incorporate an appropriately wide margin for potential modelling and data errors.[11] As a result, the AER has applied a benchmark based on the lowest of the efficiency scores in the top quartile of possible scores.

The revised approach resulted in a target that was 76.8%.[12] This compares to the higher target of 86.0% used by the AER in its NSW Draft Decision.

Having established the target efficiency, the AER made further adjustments to recognise operating environment factors. These adjustments further reduced the efficiency target for Energex by 17.1% and for Ergon by 24.4%.

The net impact of these adjustments was to bring Energex's target down to 65.6% and Ergon's to 61.7%. Further adjustments to account for trending the opex at the midpoint and escalating to 2014-15 dollars result in an assessment result to accept Energex's costs as meeting the opex criteria while imposing a relatively modest reduction of 10.4% to Ergon.

In our response to the AER's Draft Determination for NSW, we stated our support for the AER's decision to recognise general limitations of the benchmarking model. However, we are concerned that the AER has included too great a margin to account for potential errors. For example, the impact of this approach for the Final Determination for NSW businesses was a change in the reduction to base opex from 39%[13] in the Draft to 24%[14] in the Final. In the case of Ausgrid, the

[9] The Cobb Douglas Stochastic Frontier Analysis Model.
[10] AER, Draft Decision, Ausgrid determination, Attachment 7: Operating Expenditure, p. 19.
[11] AER, Preliminary Decision, Energex determination, Attachment 7 – Operating Expenditure, p. 25.
[12] AER, Preliminary Decision, Energex determination, Attachment 7 – Operating Expenditure, p.27
[13] AER, Overview, Ausgrid Draft decision, p. 53.
[14] AER, Overview, Ausgrid Final decision 2015–19, p.41.

AER's revised approach will result in an increase in opex of $271.0 million (real 2013–14) relative to the AER's draft decision.[15]

This change in efficiency target results in material increases in revenue and we are concerned that stakeholders were not fully consulted prior to this change being applied. We are also concerned that in adopting this approach for its NSW decision, it now limits the AER to depart from this position for Queensland.

In terms of establishing the base opex, the AER has made a number of adjustments. The largest of these adjustments relates to the solar feed in tariff, which was $167.1 million for Energex and $75.9 million.[16] Origin considers that this figure correctly corresponds to pass-through values previously approved by the AER.[17]However, as Origin understands, feed-in-tariff costs were recovered not only through opex charges but also depreciation and return on capital charges. Specifically, $185.7 million of feed-in-tariffs included in Energex's smoothed annual revenue allowance for 2014-15 was recovered through the following allocation:[18]

- Regulatory Depreciation: $12.2 million;
- Return on Capital: $132.3 million; and
- Operating Expenditure: $41.2 million.

The manner with which Ergon has recovered its feed-in-tariff costs is not as transparent as Energex. Irrespective, Origin requests the AER to better explain the relationship between how the allocation of feed-in-tariff costs to the various building blocks and adjustments to the base opex are determined.

2.1 Overheads

The AER use category analysis metrics to identify if certain categories of Energex and Ergon Energy's opex are possible sources of inefficiency. As part of its assessment for the Preliminary Determination, the AER engaged Deloitte Access Economics (Deloitte) to review the reasons for the service providers' benchmarking performance, including the extent they had implemented the recommendations of the recent review by the Independent Review Panel (IRP).

Deloitte found that while Energex and Ergon Energy have both achieved significant efficiency gains since the IRP's review (particularly reflected in FTE reductions), much of these benefits were realised after the 2012–13 base year. Deloitte also observed that the service providers have identified they can further reduce their costs.[19]

Deloitte's key findings include:[20]

- both service providers (but Ergon Energy in particular) have high total labour costs compared to more efficient peers, which is a result of having too many employees rather than the cost per employee;
- Ergon Energy's EBA prohibits certain activities (such as switching) from being conducted by a single person whereas in other states these activities can be performed by a single person;
- certain EBA provisions limit the ability of the businesses to quickly adjust their workforces flexibly and utilise them productively;

[15] AER, Draft Decision, Ausgrid determination, Attachment 7: Operating Expenditure, p. 10.
[16] AER, Preliminary Decision, Ergon determination, Attachment 7 – Operating Expenditure, p. 263.
[17] AER, Determination 2013-14 Queensland Solar Bonus Scheme Pass-through for Energex, p. 14.
[18] Energex, Annual Pricing Proposal, 1 July 2014 to 30 June 2015, p.7.
[19] AER, Preliminary Decision, Energex determination, Attachment 7 – Operating Expenditure, p.42.
[20] AER, Preliminary Decision, Energex determination, Attachment 7 – Operating Expenditure, p. 43.

- Energex and Ergon Energy have not implemented the IRP's recommendation that they market test the ICT services that SPARQ provides; and
- Ergon Energy has not yet implemented a LSA model for its regional depots, despite the IRP's recommendation.

In addition, the AER has applied category analysis metrics to identify categories of opex that are possible sources of inefficiency. A summary of the AER's analysis is replicated in table 1.

Table 1: Summary of AER Category Analysis[21]

	Energex	Ergon
Labour	High	Very High
Total Overheads	Very High	Very High
Total Corporate Overheads	Very High	Very High
Total Network Overheads	Comparable	Comparable
Maintenance	Comparable	High
Emergency Response	Comparable	Comparable
Vegetation Management	Very High	Comparable

In addition, the AER noted that both businesses have forecast a significant increase in opex overheads over the 2015-20 regulatory control period driven by a higher allocation to opex in response to a lower capex forecast. The AER estimates that the share of overheads Energex allocated to opex increased from 38% in 2012-13 to 45% in 2019-20.

As part of our submission in response to the regulatory proposals we raised specific concerns regarding the level of corporate overheads and ICT. We maintain our position that these categories of expenditure warrant further review, especially given that both the AER and its consultant have identified these categories of expenditure as exhibiting inefficiencies.

We are particularly concerned that the AER's decision to lower the efficiency threshold from the average of the top quartile to the bottom of the top quartile allows the businesses to embed obvious and demonstrated inefficient expenditure into its annual opex allowances.

[21] AER, Preliminary Decision, Energex determination, Attachment 7 – Operating Expenditure, p. 138.

3 WACC

3.1 Summary

- Consider the AER has adopted a balanced and pragmatic approach to WACC that provides certain and predictable outcomes for investors and provides a balance between the views of consumer groups and the DNSPs.
- Support the AER decision to adopt an equity point estimate of 0.7 on the basis it provides a certain and predictable and a balance between the views of consumer groups and the DNSPs.
- Support the AER decision to adopt a MRP of 6.50% as this better reflects the efficient financing costs of a business exposed to the level of risk that applies to an Australian regulated network businesses.

3.2 Equity Beta

The NER requires that the return on equity for a regulatory control period must be estimated such that it contributes to the achievement of the allowed rate of return objective.

The Queensland businesses have proposed an equity beta point estimate of 0.91. This is well in excess of the equity beta of 0.82 proposed by the NSW businesses and the AER's NSW final decision of 0.7.

The AER considered that operational risk for the benchmark efficient entity would be above the market average, given the high proportion of fixed costs (relative to variable costs) for energy networks. The AER also considered that intrinsic risk for the benchmark efficient entity would be very low because the network businesses are insulated from the business cycle largely as a result of a regulatory regime where the businesses are not exposed to volume risk and have a guaranteed revenue stream under the revenue cap arrangements.[22]

As such, the AER did not accept the equity beta proposed by the Queensland businesses and instead adopted an alternative equity beta point estimate of 0.7.

The AER defined the benchmark efficient entity as a pure play regulated energy network business operating within Australia. To determine systematic risk, it reviewed data for domestic businesses that are considered to be reasonable comparators to the benchmark efficient entity to inform the equity beta estimate.

The AER accepted the equity beta estimates derived by its consultant (Henry). This empirical analysis used a comparator set of nine Australian energy network firms, using available data from 29 May 1992 to 28 June 2013 and showed an extensive pattern of support for an empirical equity beta within a range of 0.3 to 0.8.

The AER considered the equity beta estimates presented by Henry were generally consistent with other empirical studies based on Australian energy network firms. The AER also considered that international comparators were less representative of the benchmark efficient entity and therefore should not be used as the primary determinant of the equity beta range or point estimate.

The AER did, however, consider that the international evidence provides some limited support for an equity beta point estimate towards the upper end of its empirical range.

Origin considers that for energy network businesses, increases in financial risk as leverage increases is relatively low, largely due to the minimal risks that exist in the current regulatory framework and the ability of the businesses to effectively pass on borrowing costs to consumers.

[22] AER, Preliminary Decision, Energex Rate of Return, p. 331.

In our submission in response to the DNSP's proposals and also in response to the AER's NSW process we supported the work undertaken by the AER and its consultants (notably McKenzie and Partington) identifying the low default risk in regulated energy network businesses.

The benchmark efficient entity is a pure play regulated energy network business operating within Australia. The regulatory framework which applies to regulated network businesses creates a very low business and financial risk environment that Origin considers is unparalleled. For these reasons, Origin supports the AER's approach to determine systematic risk based on empirical studies based on Australian energy network firms. Origin also agrees that international comparators should not be used as primary determinants of risk to the extent that the risks faced by these firms are not directly comparable to Australian conditions.

Origin notes that the data supports an argument for an equity beta lower than the upper range adopted by the AER. However, we maintain the view we have taken in previous submissions that the AER has adopted a balanced and pragmatic decision to adopt 0.7 on the basis it is a modest step down from previous regulatory determinations, thereby providing a certain and predictable outcome for investors and a balance between the views of consumer groups and the network businesses.

3.3 Market Risk Premium

The AER's Rate of Return Guidelines set out its proposed approach, including the relevant material that it proposes to use, to inform its final estimate of the expected return on equity.

Both Energex and Ergon have proposed a market risk premium (MRP) estimate of 7.57% based on the outputs of a weighting scheme of historic averages, dividend discount model and independent valuation reports.

In making its decision with respect to the MRP, the AER has relied upon a range of data sources. In doing so it has arrived at a point estimate at the top of the range implied by historical excess returns.

Origin considers that the approach undertaken by the AER produces an estimate that is stable and consistent with historic decisions.

Taking into account that the information considered by both the network businesses and the AER is consistent, Origin considers that with respect to the MRP, the material relied upon by the AER produces an estimate that better reflects the efficient financing costs of a business exposed to the level of risk that applies to an Australian regulated network businesses and should be preferred over the estimated provided by Energex and Ergon.

4 Metering Services

4.1 Summary

- Origin does not support the AER's revised method. We consider that the AER has not undertaken sufficient and robust analysis to fully understand the long-term implications of its decision on metering contestability or indeed if there is a more preferable approach.
- Origin considers the method adopted by Energex to determine its MAB warrants further investigation to explain significant differences to comparable businesses.

4.2 AER Methodology

Origin considers that decisions relating to the introduction of contestability to previously monopoly activities, need to be predictable as this is an essential requirement to allow potential new entrants to confidently develop positions that will not be generally threatened by unexpected changes in the regulatory environment.

With respect to metering and data services, the AER initially proposed an approach where the residual asset costs would be recovered through standard control service (SCS) charges. At the time, Origin strongly supported this position.

The AER has subsequently altered this position between its Draft and Final decisions for NSW via a consultation paper. Following this paper, the AER adopted an approach where metering charges are recovered via two components:[23]

- capital —metering asset base (MAB) recovery; and
- non-capital—operating expenditure and tax.

In the event that a customer with an existing regulated metering connection chooses to switch to an alternative metering service provider (and no longer receives a regulated type 5 or 6 metering service), they stop paying the non-capital component of the regulated annual metering charge. However, they will continue to pay the capital charge.

In our response to the AER's Consultation Paper we expressed concern that there was limited information about metering costs because distribution businesses do not record information about asset type or age at the individual customer level. For these reasons we encouraged to the AER to undertake further and more detailed analysis to fully understand both the short and long term movements in costs over time associated with its decision. We maintain the view that the AER has not included a level of analysis that demonstrates the benefits of one option over any other in supporting competition in metering and data services, or whether there may be more preferable alternatives.

The analysis provided by the AER in its Consultation Paper is limited to an illustrative example provided by Ausgrid. As a result, it is not clear how the unavoidable annual charges behave under different churn rates, across different tariff classes and metering configurations, and over time and whether there are potential unintended consequences because future prices are unknown under all conditions. It is critical that the appropriate analysis is undertaken to inform stakeholders fully of the impact of both the avoidable and unavoidable charges for each metering option over time.

We remain concerned that the AER's preferred approach effectively imposes an exit fees to those customers who migrate to a 'smart meter'; the only difference is that a customer taking a smart meter will bear the cost of legacy metering investments for the remaining life of the asset base

[23] AER, Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge, March 2015.

rather than as a lump sum. An exit fee is an outcome the AER rejected in its NSW DNSP draft decisions and should reject again in its final determinations.

The structure and level of metering charges has a direct impact on how effective and timely advanced metering technology can be rolled out into the existing market. Metering technology is also interlinked to network tariff reform, which underpins the achievement of long run efficient investment in network infrastructure. Indeed, it is now difficult to imagine a future world without home generation, battery technology, electric vehicles and more sophisticated energy management. Yet the efficient adoption and use of these technologies and realisation of consumer benefits will be dependent on a market led deployment of smart meters, which, in turn, will be heavily influenced by the AER's treatment of residual metering costs.

A decision based on fully informed and robust analysis is a materially preferable outcome than the current AER position. For this reason the AER must undertake the necessary analysis. Where it is constrained in making a decision that is in the long term interest of consumers, this impediment should be removed as a matter of priority through the AEMC metering contestability Rule change process before it is finalised.

4.1 Proposed Costs

As part of its analysis, Energex identified three possible methods to determining its metering asset base (MAB). These methods resulted in values of $436 million, $326 million and $226 million respectively. Energex adopted the highest value of these MABs, the makeup being set out in table 2.

Table 2: Energex MAB ($ 1 July 2015)[24]

Asset Category	Asset Value $M	Remaining Lives
Metering: Electro-mechanical	257.4	16.1
Metering: Electronic	160.1	12.2
Total Direct	***417.5***	
Office Equipment	(0.4)	2.8
Motor Vehicles	3.3	6.3
Plant & Equipment	1.0	5.0
Building	8.4	33.8
Land	5.1	n/a
IT Systems	1.0	3.3
Total Non-System Assets	***18.5***	
TOTAL MAB	**435.9**	

The Energex MAB compares to a RAB of $11,333.7 million, or a ratio of 3.8%. By way of comparison, the Ausgrid MAB is $267.2 million relative to a RAB of $14, 287.4 million, or a ratio of 1.9%.

The AER's Preliminary Decision is to approve an opening MAB value as at 1 July 2015 of $448.8 million and substitute it for Energex's proposed $435.9 million ($nominal). While the AER's decision reflects the inclusion of controlled load meters whereas the Energex did not, Origin is nevertheless concerned about the level of the MAB.

[24] Energex, Appendix 50 MAB Methodology, p. 8.

Energex has raised concerns regarding issues associated with the derivation of its MAB, namely that under previous regulatory decisions meter assets had been classified as low voltage overhead service lines.[25]

We recognise that there are various reasons why the MABs of the respective businesses will differ. However, the derivation of the MABs across network businesses has not been a precise calculation because the businesses have not maintained the level of granularity to allow such a calculation. As a result, each business has been required to adopt a "method" to calculate their opening MABs.

Under the circumstances this is unavoidable. However, we remain concerned that comparable businesses such as Energex and Ausgrid can have departures to the magnitude of $181.6 million. This goes the majority of the way to explaining why Energex's capital charges are around 20% higher than those of Ausgrid.

Origin considers that such significant differences warrant further analysis, especially given the potential impact on competition in metering services.

Finally, we consider the proposal by Energex to include a meter transition fee would effectively create an exit fee which act as impediments to fostering competition n the provision of metering and data services. For these reasons we support the AER's position not to approve the proposed meter transfer fees.

[25] Energex, Appendix 50 MAB Methodology, p. 1.