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Submitted by email to: aer inquiry@aer.gov.au

Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge

Thank you for the opportunity to provide a submission to the Australian Energy Regulator's (AER) Consultation Paper on an alternative approach to the recovery of the residual metering capital costs (the Consultation Paper).

Simply Energy is a member of the Energy Retailer's Association of Australia (ERAA) and draws the AER's attention to the ERAA's submission, which we support.

Of the two options presented, Simply Energy prefers Option 2. Option 2 provides the same economic outcomes as the approach selected by the AER for its New South Wales distribution determination Draft Decision, and is justified by the same considerations identified by the AER in that decision, in particular the benefits of supporting the development of competitive metering in NSW.

However, we are concerned that insufficient time has been given to develop a third option, which preserves the benefits identified in the AER's Draft Decision in relation to residual metering capital costs, without Option 2's additional complexity of a second alternative control service metering charge.

Alternative approaches to the two options presented

We were very concerned that the Draft Decision metering exit fee approach that has been the subject of discussion between the AER, distributors, and other stakeholders since the middle of 2014 is now considered to be legally impermissible based on objections raised in 2015 by ActewAGL.

We note that the NSW distributors had accepted the AER's Draft Decision approach to recover residual metering capital costs through charges for standard control services (SCS). Given that the economic outcomes of this approach were acceptable to stakeholders we urge the AER to look again at whether it can be made to work legally.

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.

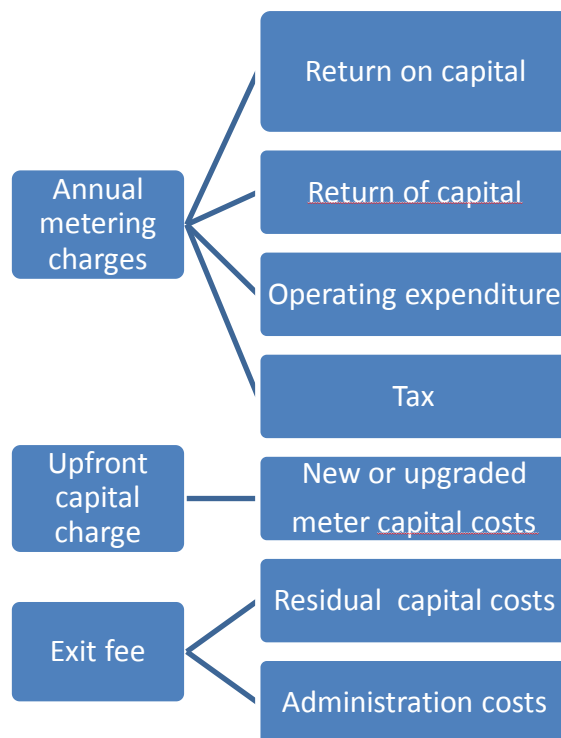
Simply Energy strongly prefers Option 2

Of the two options presented we strongly support Option 2.

We supported the AER's Draft Decision in relation to metering exit fees and agreed with the reasoning presented by the AER. In particular, the Draft Decision approach removed potential barriers to development of a competitive metering market in New South Wales, while satisfying the expectations of distributors that their previous expenditures would be fully recoverable from customers.

Our consideration of the two options presented in the Consultation Paper indicates that it is Option 2 that provides consistent economic outcomes with the Draft Decision approach to metering exit fees.

For example, Figure 16.3 of Attachment 16 of the Draft Decision in relation to Ausgrid, which is reproduced below, shows that the annual metering charges that only those receiving metering services from Ausgrid would pay (described as the 'avoidable annual charge' in the current paper) includes return on capital and return of capital that relate to the metering asset base. Option 2 in the Consultation Paper is consistent with this Draft Decision approach, whereas Option 1 is inconsistent. Option 1 fails to signal the costs of the service to recipients of Ausgrid's metering services.



The economic reasons provided for the Draft Decision approach have not changed

We are confused by the current paper's statement that the AER has 'a strong preference for Option 1¹', given that Option 2 (unlike Option 1) has consistent economic outcomes with the Draft Decision, and no demonstration has been provided of how the economic considerations that led to the Draft Decision have changed.

The key difference between Option 1 and Option 2 is that Option 2 provides customers with a price signal that includes Ausgrid's capital costs relating to providing the metering service.

¹ AER, 2015, Consultation Paper on an alternative approach to the recovery of the residual metering capital costs, page 6.

The Draft Decision supported this approach, stating that 'existing regulated metering customers will pay for metering capital costs as part of their annual charges. This will ensure that annual charges are transparent and cost reflective.'²

The Draft Decision considered that this was an appropriate way of setting the avoidable annual metering charges, which are only paid by current regulated metering customers.

The Draft Decision considered that the best way of providing distributors with recovery of any residual metering capital costs relating to assets stranded due to customers choosing non-regulated metering was to add the residual amounts to the SCS RAB.

The Consultation Paper has accepted that this is legally impermissible, and so an alternative approach is required.

Option 2 leads to the same cross subsidies as the Draft Decision. In both cases only residual capital costs relating to stranded metering assets make up the unavoidable charge that is paid by all customers. In the Draft Decision this unavoidable residual charge was part of the SCS charges, whereas in Option 2 it is a separate unavoidable metering-related annual charge.

The Draft Decision considered the cross subsidies inherent in the residual capital costs recovery approach and concluded that overall the approach was appropriate.

The Draft Decision states that 'We consider that limited cross subsidies to recover just the residual capital costs is reasonable as these relate to existing meters which are sunk costs that customers did not originally have choice in incurring.

This is analogous to the approach taken by the AEMC on the distribution pricing rule change where future costs are to be signalled to customers, but residual network costs are to be recovered in a way that minimises distortions which may also lead to some cross subsidies.

Any concern with residual cross subsidies is mitigated by the fact that there are likely to be collective benefits from switching to advanced metering technologies such as better demand side participation which may help lower overall network costs for all customers.'³

Similarly, in its Draft Decision the AER stated that it preferred to 'err on the side of faster entry rather than too low entry' in respect to how the determination impacted the development of metering competition in NSW.

The Draft Decision also considered that the cross subsidies inherent in the approach were justified 'on the basis that it is the clear intent of policy makers to see a competitive metering market develop in the NEM. We also consider that it will help further the NEO because advanced metering solutions facilitate the move towards cost reflective tariffs which are fundamental to achieve efficient use of and investment in distribution networks.'⁴

In the absence of evidence that the economic considerations identified in the AER's Draft Decision have changed, we consider that, of the two options presented, Option 2 is strongly preferred. This is because it

² AER, 2014, Draft decision Ausgrid distribution determination, section 16.6.4.

³ AER, 2014, Draft decision Ausgrid distribution determination, section 16.6.4.

⁴ AER, 2014, Draft decision Ausgrid distribution determination, section 16.6.4.

provides the same economic outcomes as the Draft Decision, which were generally supported by stakeholders.

If you have any questions concerning this submission, please contact either myself on (03) 8807 1132 or James Barton, Regulatory Policy Manager on (03) 8807 1171.

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