simply energy

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19 February 2014

Mr Warwick Anderson
General Manager
Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

By email to: QLDelectricity2015@aer.gov.au

Dear Mr Anderson

## Preliminary Positions Paper: Framework and Approach for Energex and Ergon Energy

Thank you for the opportunity to comment on the Preliminary Position Paper (the Paper) for the next Queensland distribution price review.

Simply Energy would like to make comment on four components of the Paper — the classification of metering services; price control for metering services; metering exit fees; and the price control for standard control services.

We also raise another issue in relation to theft of electricity that the Australian Energy Regulator (AER) may wish to consider in its price review processes.

### Classification of metering services

We support the AER's proposal to classify Type 5 and 6 metering services as direct control, alternative control services. This will result in Type 5 and 6 metering charges being unbundled from the network charge, an important step if the competitive roll out of smart metering is to proceed. It will mean that customers no longer have to pay for the distributor's metering asset where this has been replaced with a Type 1-4 meter, improving the cost effectiveness of smart metering services for Queensland energy consumers.

### Price control for metering services

We agree with the price control formula that the AER proposes to apply to Type 5 and 6 metering services. As the AER notes, a key consideration in the review will be setting the 'starting price' which will require a consideration of the input costs used in delivering these services.

We look forward to engaging with the AER on this matter over the course of the review.

### Metering exit fees

The Paper does not explicitly address how exit fees payable for the removal of a distributor's meter are determined.

In our view, the removal of the distributor's meter asset is a monopoly service as we can only engage the distributor to remove it. Rightly, other meter providers will not perform work on someone else's metering asset.

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Metering exit fees should be classified as direct control, alternative control services and a price control established for them if this classification does not yet apply.

As with other Type 5 and 6 metering service fees, under this classification the AER would need to set a 'starting price' for the price control. This would provide an opportunity for the AER and other stakeholders to examine the input costs that distributors are recovering through these fees and whether the proposed charges are a fair reflection of the costs involved.

### Price control for standard control services

We note the AER's proposal to use a revenue cap to regulate the distributors' standard control services.

We do not have a firm preference for a revenue cap or a weighted average price cap as we see advantages and disadvantages in both.

However, we would be concerned with the adoption of a revenue cap if it resulted in significant annual price volatility.

As the AER notes, much of the volatility in network prices in recent years has been caused by network investment requirements and government regulations such as feed-in tariffs. We feel that these issues may now have passed and we look forward to the future where network prices may not be so volatile.

We would not like to see the adoption of a revenue cap that sustains network price volatility. Large variations in prices are the primary cause of consumer anxiety about energy prices. Generally speaking, customers want accurate and stable bills so that they can manage their household or business budgets. Accurate and stable bills also support consumer confidence in the industry.

That said, we acknowledge the AER's comment that a weighted average price cap can also result in volatility in individual tariffs and individual tariff structures.

These considerations incline us toward supporting the AER's suggestion of including tolerance limits in the revenue cap that smooth out 'unders and overs' across a couple of years. Our initial support is predicated on seeing further detail through the course of the price review about how the tolerance limits might function in practice.

We look forward to discussing this with the AER and other stakeholders through the price review process.

### Recovering lost revenue from theft

Energex recently contacted us seeking our views on how they recover lost revenue from householders or businesses by-passing the meter. Meter by-passes are usually identified through police drug investigations.

Energex's proposal is to charge retailers for this lost revenue even though it is very unlikely that we would be able to recover this from the individual, given they will likely face court and even jail for their drug related offences. As a result, we would have to write it off as a bad debt which would be paid for by other customers. This inflates the transactions costs of recovering this revenue and increases the prices paid by customers in general.

We believe that this lost revenue may be already recovered through distribution loss factors. However, if this is not the case, Energex should be allowed to recover this lost revenue through their revenue cap. If energy

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theft is identified, they should be able to include this lost revenue in the subsequent year's revenue cap. This would be a more cost effective recovery strategy than having retailers incur unnecessary write offs.

Unlike us, the AER would also be able to audit the revenue amounts that Energex is attempting to recover, providing an independent check that Energex is not over-recovering this lost revenue.

If you would like to discuss this submission further, please contact me on (03) 8807 1132.

Yours sincerely

Dianne Shields
Senior Regulatory Manager