



Determination

**Advanced Metering Infrastructure
2013 revised charges**

October 2012

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1 Summary

The Australian Energy Regulator (AER) has approved proposals by five licensed Victorian Distribution Network Service Providers (DNSPs) to revise their 2013 Advanced Metering Infrastructure (AMI) charges.

These charges are for metering infrastructure provided by SPI Electricity Pty Ltd (SP AusNet), United Energy Distribution Pty Ltd (United Energy), Jemena Electricity Networks (VIC) Ltd (JEN), CitiPower Pty (CitiPower) and Powercor Australia Ltd (Powercor) to small consumers in Victoria. More commonly this infrastructure is referred to as ‘smart metering’.

The process for determining the AMI charges is set out in the AMI Order in Council (the AMI OIC) made under the *Electricity Industry Act 2000 (Vic)*¹. This process involves the AER establishing a budget for the rollout of smart meters to Victorians.

The 2013 charges for these services were originally forecast when the AER set the budgets for the 2012–2015 period in October 2011. This budget forecasted both capital and operating expenditure that each DNSP would be required to acquire and upgrade assets necessary for the AMI roll-out, such as expenditures on information technology (IT) and communications.² The AER also set out forecast AMI charges for each year of the 2012–15 budget period that would allow the DNSPs to fully recover the forecast expenditures by the end of the 2012–15 budget period.

Because the AMI charges set in the 2011 final determination were based on forecast expenditures, the DNSPs are required to revise the charges to apply in the next year based on actual expenditures incurred and any forecast expenditure updates. The AMI OIC requires the DNSPs to submit these “charges revision applications” to the AER by 31 August each year for the budget period 2012–15. The AER is then required to make a determination on these applications by 31 October each year.

For this period, the AER is required to accept the revisions proposed by the DNSPs if three criteria are met, namely that the expenditure is:

- certified by an auditor
- in relation to matters that are within the scope of the OIC
- within 120 per cent of the budget.

The AER considers that these three criteria have been met by all DNSPs. As such, the AER must approve the revisions as proposed. As set out in Section 4, these charges will apply for the period 1 January to 31 December 2013.

1 The regulatory arrangements relating to the AMI rollout are set out in an August 2007 Order in Council made by the Victorian Governor in Council under sections 15A and 46D of the Electricity Industry Act 2000.

2 AER Final Determination, Victorian Advanced Metering Infrastructure Review 2012–15 budget and charges application, October 2011.

2 Key findings

The AER has assessed the Victorian DNSPs' charges revision applications in accordance with the AMI OIC and found that:

- all Victorian DNSPs incurred actual expenditures that met the requirements of the AMI OIC
- the 2013 metering charges proposed by the Victorian DNSPs are consistent with their actual expenditure and revised forecasts.

Under the OIC, as the AER has determined that the above criteria have been met, it must approve the revised charges proposed by the DNSPs.³ This results in upward revisions to the forecast charges set in 2011. The higher 2013 AMI charges are attributable to the DNSPs spending more than their approved expenditure allowances in 2011. Some of the DNSPs' total expenditures were close to 120 per cent of their approved budget. However, the AMI OIC allows the DNSPs to incur up to 120 per cent of their total expenditure budget for 2011. (The AMI OIC framework is outlined in section 3 of this report.)

Based on an analysis of the expenditure by each DNSP, the AER found that most of the DNSPs have incurred higher 2011 expenditure due to:

- spending above their Information Technology (IT) and communications allowances;
- and unplanned expenditure on accumulation meters and manually read interval meters.

The DNSPs have also fulfilled the other charges revision requirements by each submitting a signed audit report which certified that the actual 2011 expenditure is for activities within scope and has been incurred in the amount claimed.

Therefore, the AER approves the proposed 2013 AMI Charges as set out in the DNSPs' 2012 charges revision applications. The approved 2013 AMI charges are set out in section 4 of this decision.

³ The details of the AER approved charges can be found in AER Final Determination, Victorian Advanced Metering Infrastructure Review 2012–15 budget and charges application, October 2011.

3 Legislative framework

Clause 5G.3 of the AMI OIC requires the AER to make a determination of the revised charges to apply by 31 October each year.

Clause 5H.1 of the AMI OIC provides that amongst other things charges revision applications include actual AMI expenditure and revenue and contain an updated forecast of AMI expenditure and revenue for the remaining years of the relevant budget period.

Charges revision applications must also be accompanied by an audit report that is consistent with clause 5.H2 of the AMI OIC, including certifying that:

- the actual expenditure incurred is for activities within scope; and
- the actual expenditure incurred has been incurred in the amount claimed.

Clause 5.I2 of the AMI OIC specifies how the AER must determine the building blocks in making a determination in response to a charges revision application. In particular, clause 5.I2 provides:

5I.2 In determining the building blocks the Commission must:

(a) include actual capital expenditure and actual maintenance and operating expenditure for year $t-1$ where actual Total Opex and Capex for that year:

(i) is certified in an audit report under clause 5H.2;

Note: An audit report provided for the purposes of this clause is not conclusive as to whether expenditure is for activities that are within scope.

(ii) is for activities within scope at the time of commitment to or incurring of that expenditure; and

(iii) in the case of the initial AMI budget period, is up to 120% of the Approved Budget for that year or in the case of the subsequent AMI budget period, is up to 110% of the Approved Budget for that year; and

(b) where year $t-1$ is the year commencing 1 January 2009 also include the expenditure determined pursuant to clause 5D.4.

Note: Clause 5D.4 provides for the making of a determination with respect to certain items of expenditure that have been incurred between 1 January 2006 and the Start Date.

As such, in applying clause 5.I2 the AER is making an assessment of how much of the actual expenditure should be included in the building blocks used to determine charges. In making this assessment, the AER turns its mind to the following:

- whether the actual expenditure for the period 1 January 2011 to 31 December 2011 is within the scope of activities allowed by the AMI OIC;
- and whether the expenditure is more than 120 per cent of budget expenditure approved by the AER (does not exceed the approved budget in the subsequent budget period).

If it is satisfied of these matters, the AER then must include this actual expenditure in determining charges in accordance with the building block model.

If actual expenditure is greater than 120 per cent of the AER's approved budget, then the AER must assess this expenditure excess. Clause 5I.5 of the AMI OIC provides for the AER to also include in the building blocks expenditure excess to the extent that it is prudent.

Clauses 5I.6, 5I.7, 5I.8, and 5I.9 detail the approach that the AER must take in making an assessment of whether 'expenditure excess' is prudent. These clauses, amongst other things require the AER to make an assessment on the timing of the expenditure excess, the nature of the competitive tender process, and the circumstances and information available to the DNSP at the time of incurring the expenditure excess.

4 Approved 2013 metering charges

Comparison of 2013 approved and revised charges (\$nominal⁴, GST exclusive)

Distributor	Meter type	Previous approved 2013 charges ⁵	Revised 2013 charges approved ⁶	Variance
CitiPower	Single phase	107.92	127.45	18.1%
	Three phase direct connected meter	141.06	166.57	18.1%
	Three phase CT connected meter	178.16	210.39	18.1%
Powercor	Single phase	111.57	127.75	14.5%
	Three phase direct connected meter	147.16	168.5	14.5%
	Three phase CT connected meter	194.99	223.27	14.5%
JEN	Single phase single element meter	173.38	173.38	No change
	Single phase single element meter with contactor	173.38	173.38	
	Three phase direct connected meter	213.07	213.07	
	Three phase Current transformer connected meter	236.88	236.88	
SP AusNet	Single phase, single element	122.60	130.45	6.4%
	Single phase, two element with contactor	140.87	149.90	6.4%
	Multi phase	170.19	181.10	6.4%
	Multi phase, with contactor	188.79	200.89	6.4%
	Multi phase current transformer connected	243.10	258.68	6.4%
United Energy	Single phase single element meter	123.30	124.45	0.9%
	Single phase single element meter with contactor ⁷	125.84	124.45	-1.1%
	Three phase direct connected meter	139.05	140.35	0.9%
	Three phase Current transformer connected meter	148.33	149.71	0.9%

⁴ The AER notes that the Citipower and Powercor's AMI charges are expressed in \$ per NMI. AMI charges for JEN, SP AusNet and United Energy are all expressed in \$ per meter.

⁵ Determined based on the AER's 2011 Determination.

⁶ Determined based on the charges revision applications submitted by the Victorian DNSPs on 31 August 2012.

⁷ United Energy submits that this charge is applicable for single phase, single element meters with a contractor and also single phase, two element with contractor once this metering configuration is available. (United Energy's application dated 31 August 2012, p. 3).