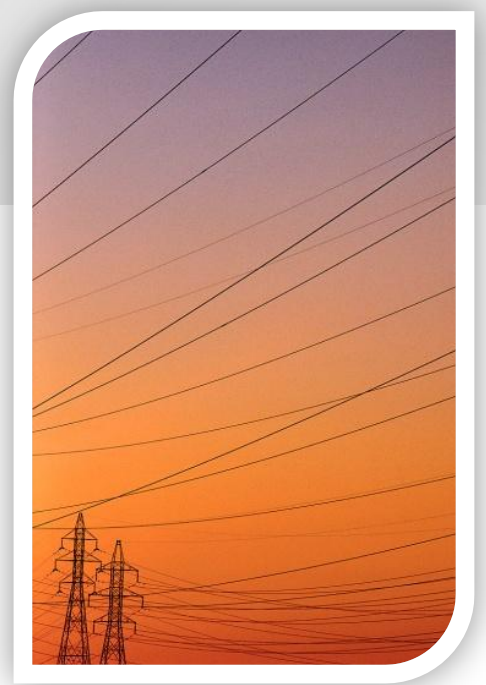
Exit fees from regulated metering



AER workshop,

11 September 2014

Bruno Coelho – Assistant Director

Chris Pattas – General Manager

AUSTRALIAN ENERGY REGULATOR

Agenda

Part 1:

1. Context – policy & market developments
2. Setting regulated metering charges
3. Proposed regulated metering costs & charges
4. Stakeholder concerns
5. Regulatory decisions & objectives
6. Questions & discussion

Break

Part 2:

1. Alternative options for exit fees
2. Questions & discussion

AUSTRALIAN ENERGY REGULATOR

Context – policy & market developments

- AER determination during policy reform phase (draft Nov, final 30 Apr)
  - Metering contestability rule changes – AEMC draft Dec.
  - New & replacement policies – nationally consistent or by jurisdiction
- Reforms & market response/investment likely toward end of reg period?
- Market investment most likely (not all) in advanced metering:
  - Greater potential to unlock various efficiencies for consumers, retailers, networks, energy services companies.
- For most – unlocking greater efficiencies dependent on switching.
  - Who will exercise this choice? Opt-out, opt-in?
  - What signal should regulated cost recovery send?

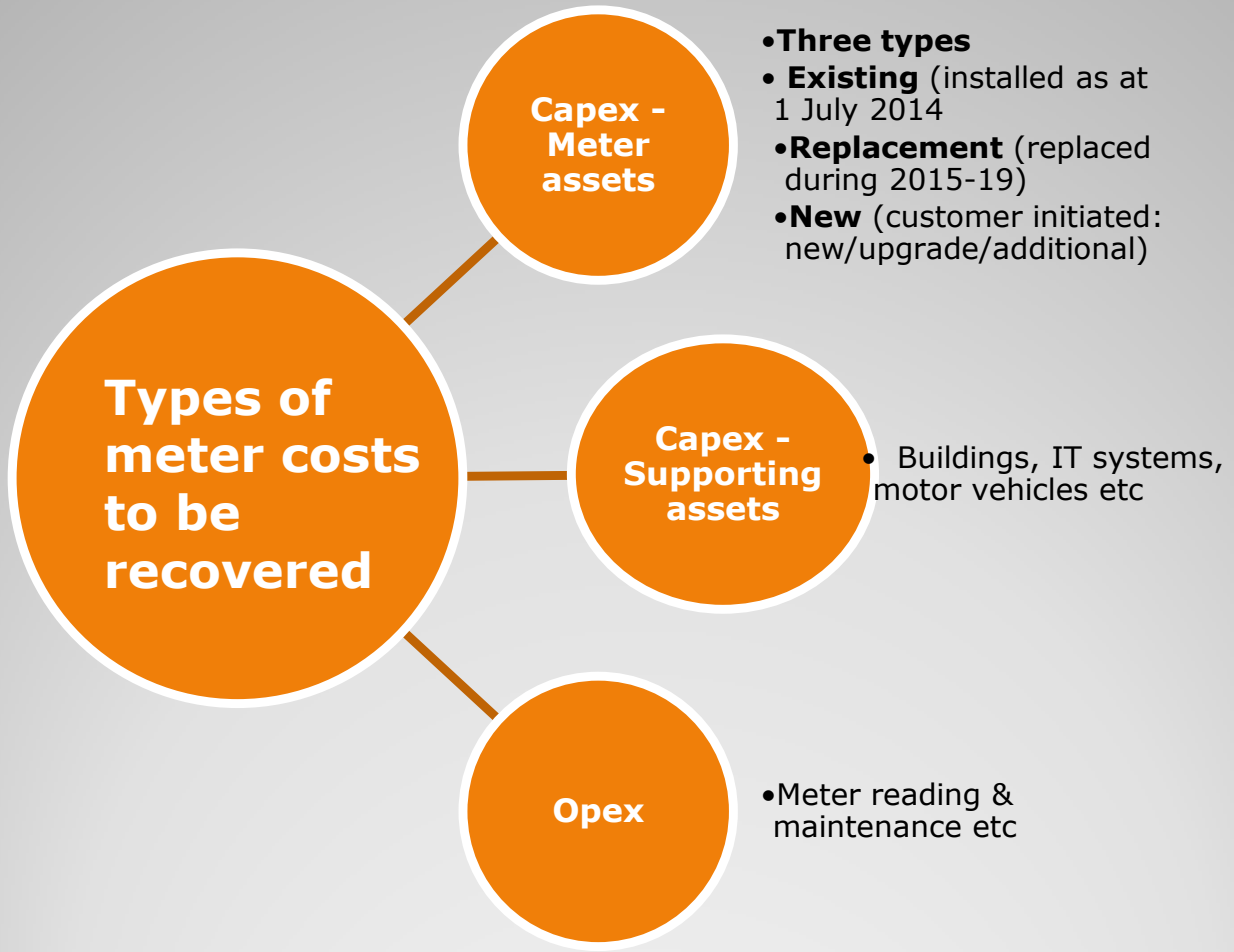
AUSTRALIAN ENERGY REGULATOR

Setting regulated metering charges

- AER framework & approach > unbundle metering:
  - Metering costs removed from Standard Control Services & placed into Alternative Control Services
  - Direct cost allocation, transparency > not inhibit emergence of contestability
  - Exit fees not explicitly considered
    - now principal stakeholder concern re contestability

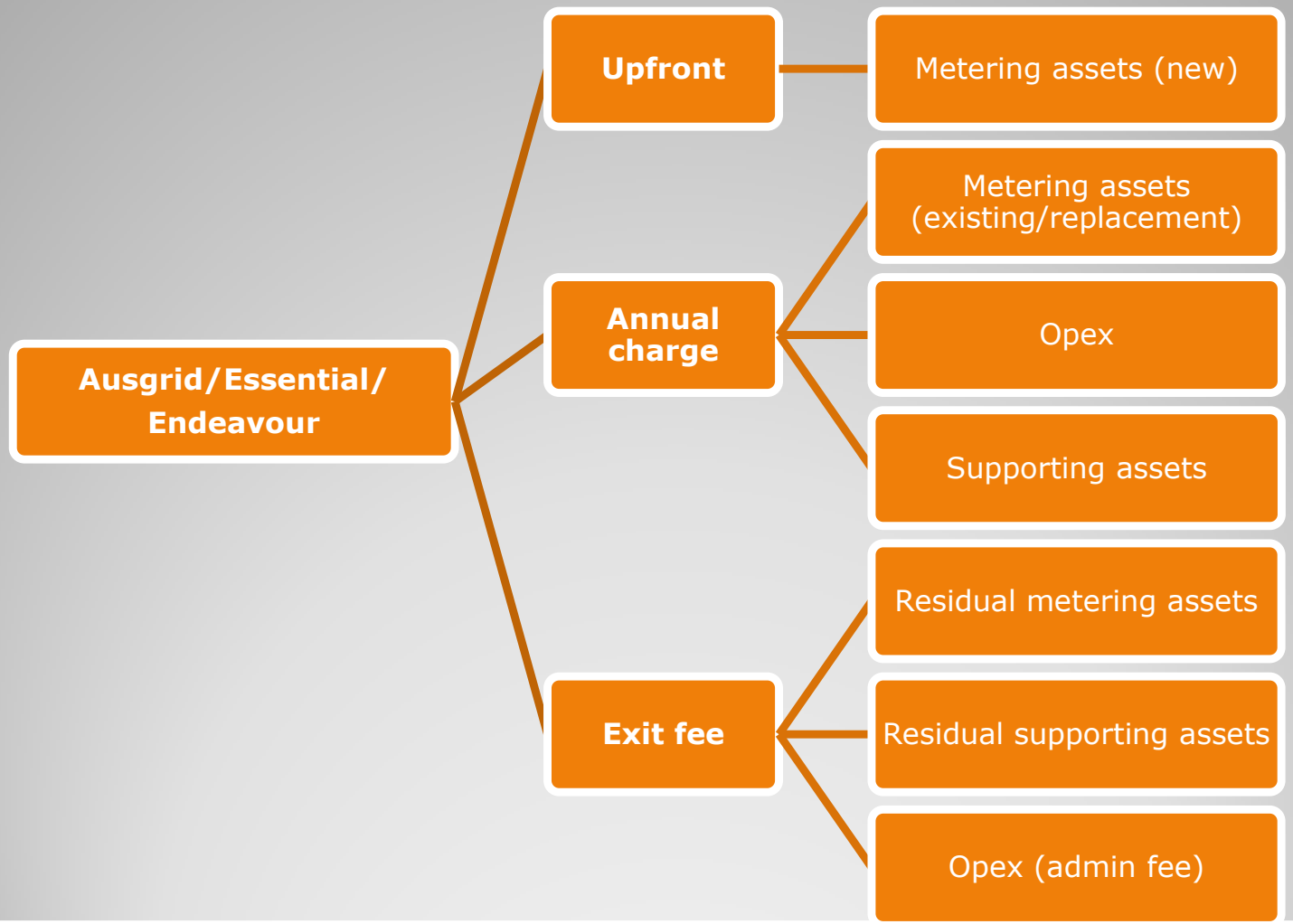
AUSTRALIAN ENERGY REGULATOR

Proposed regulated meter costs



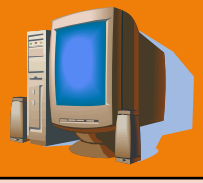
AUSTRALIAN ENERGY REGULATOR

Proposed regulated meter charges



AUSTRALIAN ENERGY REGULATOR

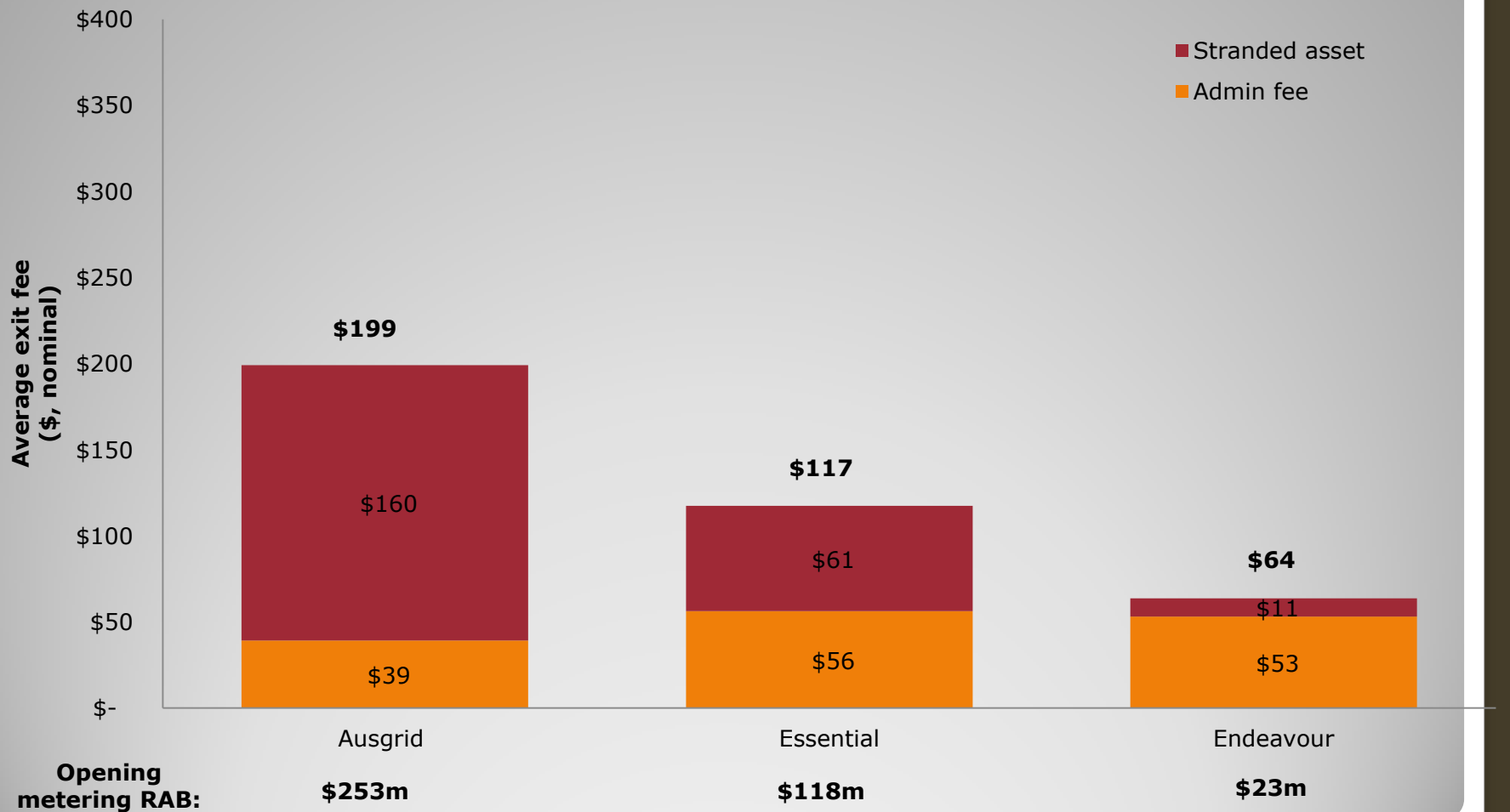
Setting regulated metering charges (cont.)

	Meter assets			Supporting assets	Opex
					
	Existing	**Replacement**	**New**		
Essential	Annual charges with residual in exit fee *(for existing customers only)*	Annual charges with residual in exit fee *(for existing customers only)*	Upfront charges	Annual charges with residual in exit fee	Annual charges with costs of customer transfers in exit fee
Ausgrid	Annual charges with residual in exit fee for *(new & existing customers)*	Annual charges with residual in exit fee *(for new & existing customers*			
Endeavour		Annual charges			
ActewAGL	Annual charges		Annual charges	Annual charges	Annual charges

Source: NSW & ACT DNSP regulatory proposals 2014-19, including attachments/models provided with proposals

AUSTRALIAN ENERGY REGULATOR

Proposed exit fees



AUSTRALIAN ENERGY REGULATOR

Stakeholder concerns

- 8 formal submissions received + informal feedback

  > retailers, consumer reps, specialist metering companies, financiers.

- Concerns expressed with exit fees:

  1. Level is too high
  2. Presence of exit fee = disincentive for competition
     - For consumers > disincentive to switch
     - For investors > disincentive for first movers (esp. under opt-out model)
  3. Not useful signal for consumers (esp. under opt-out model)
  4. Not efficient signal for consumers/investors

Source: Stakeholder submissions accessible on [http://www.aer.gov.au].

AUSTRALIAN ENERGY REGULATOR

Regulatory objectives

- AER decisions =
  - how to classify metering services
  - setting ACS charges to be price capped (inc. cost build up)
- Decisions to be linked to existing regulatory framework:
  - Provide for efficient outcomes in long term interests of consumers (NEO).
  - Ensure cost recovery for distributors (revenue & pricing principles).
  - Limit cross subsidies, improve transparency where can better inform efficient choices (efficient pricing under NEO).
  - Charges that send efficient signals for use of network (distribution pricing principles in NER).
  - Administrative simplicity.

AUSTRALIAN ENERGY REGULATOR

Questions & discussion

- Additional stakeholder concerns not mentioned?
- Views on regulatory objectives?
- Linking stakeholder concerns to regulatory objectives?

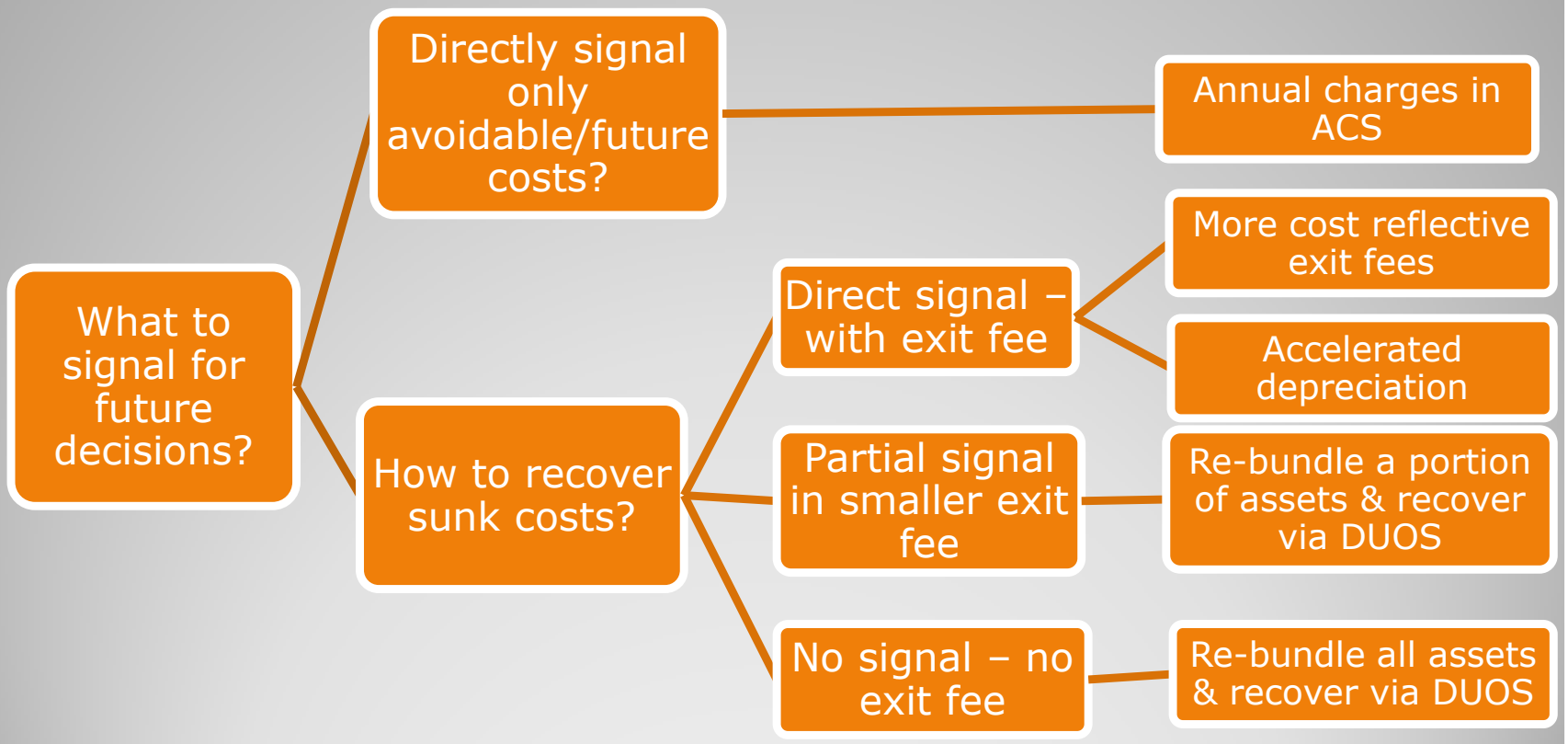
AUSTRALIAN ENERGY REGULATOR

Part 2

1. Alternative options for exit fees
2. Questions & discussion

AUSTRALIAN ENERGY REGULATOR

Alternative options for exit fees



AUSTRALIAN ENERGY REGULATOR

Option 1 (with exit fee): More cost reflective exit fees

Implementation:

- Split by meter type (e.g. type 5 or 6).
- Try & better reflect age of meters.

Impact:

- Not all customers pay the same exit fee when depart:
  - Type 6 metering customer could face *lower* exit fee than type 5 customer.
  - Customers with newer meters could face *higher* exit fee.

Issues:

- Administratively complex to have more than one exit fee
- Price signal for customers/investors:
  - *Single exit fee* – type 5 & 6 meters both as likely to be replaced with smart meter
  - *Separate exit fees* – type 6 meter more likely to be replaced before type 5 meter
  - KEY ISSUE: Are sunk costs of regulated businesses an efficient signal for future choices of investors/consumers?
- Other considerations:
  - Single exit fee – Should type 6 meter customers 'subsidise' residual meter assets of more expensive type 5 meter customers?
  - Separate exit fee – Should type 5 meter customers pay much higher exit fees even though they did not ask for a type 5 meter?

AUSTRALIAN ENERGY REGULATOR

Option 2 (with exit fee): Accelerated depreciation

- Rather than remaining life depreciation, Endeavour & Essential have proposed accelerated depreciation (of 5 and 7 years respectively)

Impact:

- Annual charges will increase.
- Eliminate exit fees sooner.
- Quantum of the impact varies by business:
  - Ausgrid: large metering RAB → large impact on annual charges
  - Endeavour & Essential: smaller metering RAB → smaller impact on annual charges

Issues:

- Eliminating exit fee sooner worth the trade-off of having a higher annual charge?
- Does preparing for contestability warrant departing from conventional regulatory approach to depreciation?
  - This would be ex-ante depreciation (before assets have become stranded), typically depreciate ex-post

AUSTRALIAN ENERGY REGULATOR

Option 3 (smaller or no exit fee): Partial or full re-bundle & recover through DUOS

Implementation:

- Determine right costs to signal directly in ACS for future investment choices (& re-bundle others):
  - Directly signal avoidable/future costs only?
  - Smear or directly signal some portion of metering assets (sunk costs)?
    - New service classification (departing from unbundling decision in F&A), or pass through.

Impact:

- Re-bundled assets - paid by all network customers via network charges, rather than individuals paying residual at exit.
- The impact of any re-bundling on annual metering charges varies depending on how re-bundling occurs, what gets re-bundled & when.

Issues:

- Better signal for future investment created by only directly signalling avoidable/future costs & smearing sunk costs – rather than single or quasi cost reflective exit fee?
- Sunk investments = existing or/& replaced meters?

AUSTRALIAN ENERGY REGULATOR

Option 3 (No exit fee)- Re-bundle & recover through DUOS

Options	ACS			SCS (DUOS)
	Annual charges	Exit fees	Upfront charges	
Option 1 – Re-bundle residual sunk costs	• Meter assets of existing & replacement • Opex for all meters • Supporting assets for all meters	Removed	New meter assets	Residual value of existing + replacement meters & supporting assets
Option 2 Re-bundle all costs of sunk & soon to be sunk investments	Opex & supporting assets relating to new meters	Removed	New meters assets	• Meter assets (existing & replacement) • Opex & supporting assets relating to existing & replacement meters
Option 3 Re-bundle of meter assets of sunk & soon to be sunk investments	Opex & supporting assets relating to all meters	Removed	New meter assets	• Meter assets (existing + replacement)

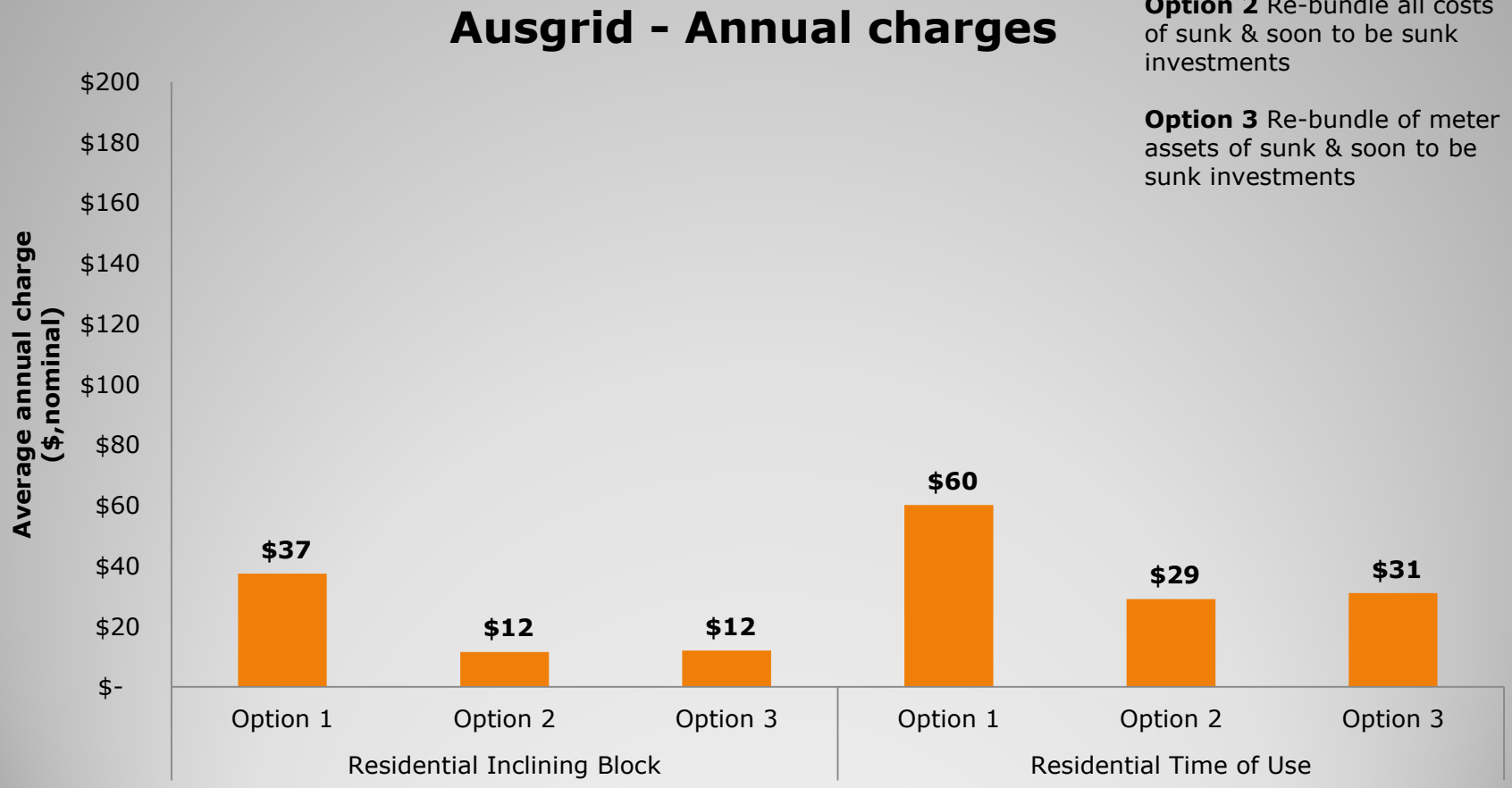
AUSTRALIAN ENERGY REGULATOR

Option 3 (No exit fee)- Re-bundle & recover through DUOS

Option 1 Re-bundle residual sunk costs

Option 2 Re-bundle all costs of sunk & soon to be sunk investments

Option 3 Re-bundle of meter assets of sunk & soon to be sunk investments



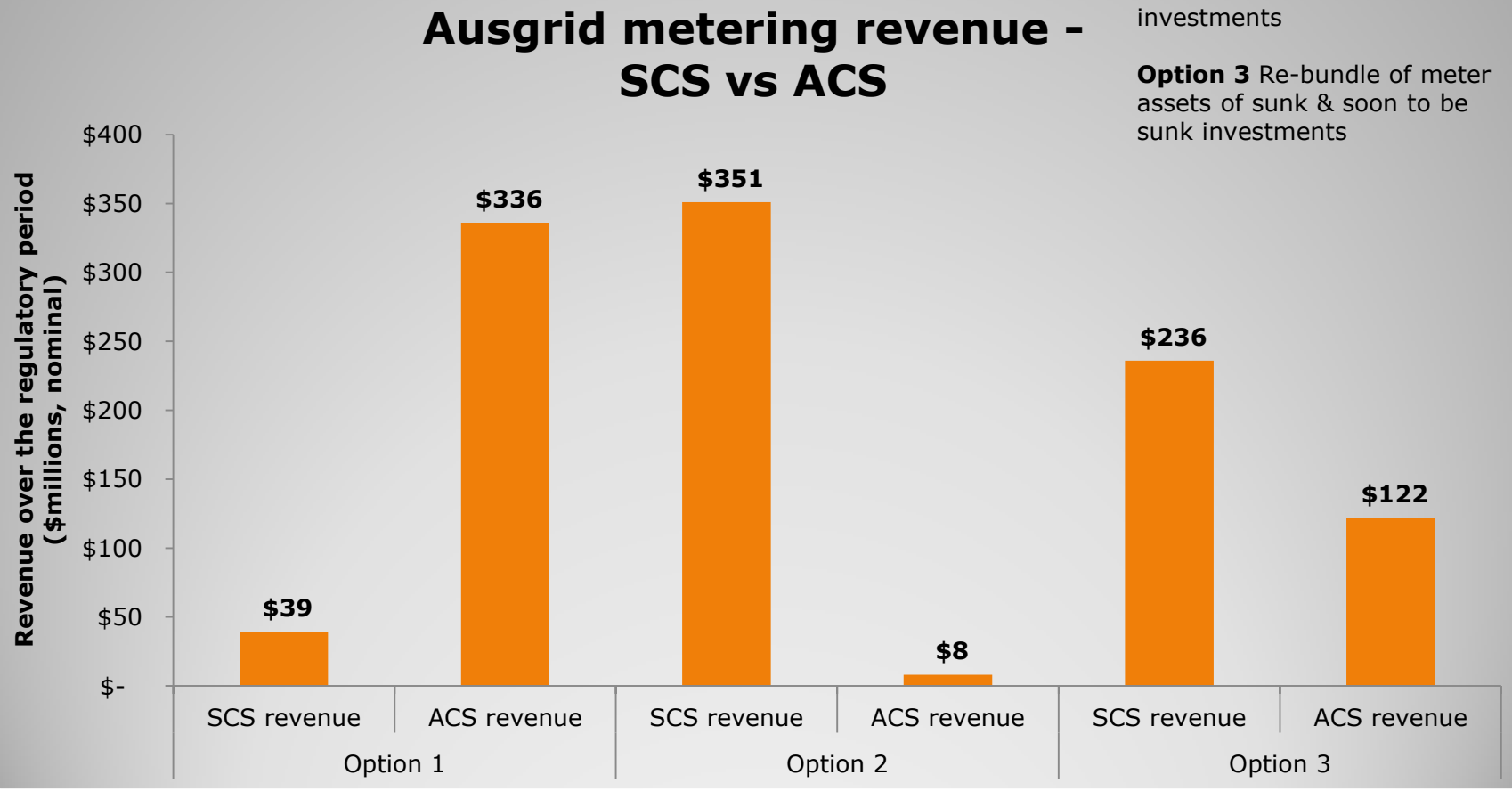
AUSTRALIAN ENERGY REGULATOR

Option 3 (No exit fee)- Re-bundle & recover through DUOS

Option 1 Re-bundle residual sunk costs

Option 2 Re-bundle all costs of sunk & soon to be sunk investments

Option 3 Re-bundle of meter assets of sunk & soon to be sunk investments



AUSTRALIAN ENERGY REGULATOR

Option 3 – Other variants

Partial re-bundle – smaller exit fee:

- Re-bundle only some meter assets (e.g. existing meters only)
- Maintains exit fees but at lower level than proposed
- Directly signals avoidable/future + soon to be sunk meter assets
- Smears recovery of sunk meter assets

Others?

Questions & discussion

- Issues with greater cost-reflectivity?
- Views on options seeking to define which costs are best signalled to investors/consumers for future decisions
  - Sunk assets (existing meters) & soon to be sunk assets (replacement)?
  - Signal only avoidable/future costs (new meters, opex, admin?)
- Further administrative or other implementation concerns with re-bundling options?
- Appropriateness of sunk costs of regulated business as evaluation signal for switching decision?

AUSTRALIAN ENERGY REGULATOR

END

AUSTRALIAN ENERGY REGULATOR