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Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

6 March 2009

Dear Mr Pattas

Re: Framework and Approach Paper: Citipower, Powercor, Jemena, SP AusNet and United Energy.

Introduction

AGL welcomes the opportunity to comment on the Australian Energy Regulator's ("AER") Framework and Approach Paper ("the Paper").

As Australia's largest energy retailer, AGL is concerned to ensure that the services provided by distributors are delivered to a high standard and at a fair price.

We believe that any regulatory regime should provide incentives for distributors to improve their service quality. In this regard, the regulatory framework must recognise that it is the retailer who is the primary customer of the distributor, and as such, the quality of the services delivered to retailers should be considered when assessing a distributor's performance.

The issues raised in the Paper, which are important to AGL, are addressed below.

Advanced Meter Infrastructure ("AMI")

AGL acknowledges that the metering services covered by the November 2008 AMI Order in Council ("OIC") will not be regulated under Chapter 6 of the NER for the next regulatory period, however it will revert to the AER post 2016.

In assessing the costs of AMI for distributors, it is important to note that in 2006, when the Victorian distributors' obligation to rollout type 5 interval meters ("IMRO program") ceased, the prescribed metering charges to cover the cost of the IMRO program continuing until the end of the regulatory period did not. Therefore distributors are currently over-recovering metering charges. Accordingly, either in the next Chapter 6 Review or under the Victorian Government OIC metering cost determination, this over-recovery of IMRO charges by distributors needs to be redressed.

In addition, AGL requests clarification from the AER that until the new AMI service level comes into effect, the current meter data and provision service level requirements will continue to apply.

Control Mechanism

AGL supports the continuation of the current price control mechanisms applied by the Essential Services Commission of Victoria ("ESCV") in previous Electricity Distribution Price Reviews ("EDPR").

While AGL accepts that the AER must leave the detailed tariff design to each distributor, we are concerned that there is no control requirement for distribution tariffs to be cost reflective. AGL is of the view that where possible tariffs should always reflect the cost of supplying the associated services.

This is particularly relevant for the difference in cost between peak and off peak periods. Unless distributors apply time of use tariffs, the incentive for retailers to pass on cost reflective tariffs to customers is reduced. This is incongruous with the premise behind the use of AMI technology, which is encouraging customers to respond to price signals.

Once tariffs are cost reflective, AGL would prefer to see long term stability in the tariff sets and designs. Customers make long term investments in energy consuming and storing (eg hot water cylinders) equipment based on tariff designs. If these tariffs are not stable , consumer investment will be stifled and retailers will be less likely to reflect the tariff designs in their retail offers. This will result in reduced demand side response to prices.

Service Target Performance Incentive Scheme

AGL strongly supports an incentive scheme which aims to improve network performance. Any scheme must recognise that the distributors' primary customer is the retailer. Therefore, a distributor's performance must be measured by its service delivery to retailers, not just end use customers.

In particular, AGL is concerned about the performance incentives for the provision of other excluded services, which have a material impact on retailer process efficiency and customer satisfaction, but are not considered in the proposed incentive scheme.

Recurrent and persistent distribution service quality problems, which will only be exacerbated by the change in metering arising from the AMI rollout, have increased retailer costs and diminished our ability to provide quality customer service. The AER should address these issues in this determination to encourage resolution and measurement of service performance and ensure distributors are appropriately incentivised to achieve service performance targets. For example:

- billing issues caused by distributors recording incorrect network tariffs in MSATS or charging retailers multiple times for the same excluded service request;
- distributors claiming they are unable to perform a scheduled read due to 'no access' even though a key to the premise has been provided to the distributor for this purpose;
- a distributor changing a product code without explanation and making it difficult for retailers to reconcile the charge for the service;
- inability to obtain a transparent cost and location for unmetered supplies; and
- tariff mapping details not being provided to retailers making it difficult for retailers to replicate mapping. This leads to a large volume of database exceptions which must be resolved manually.

These type of issues not only effect retailers' operating costs, but also the level of their own customers' satisfaction. AGL strongly encourages the AER to set clear performance standards and audit and reporting requirements in relation to services delivered to retailers. Retailers should be consulted as to whether the performance standards have been met.

In relation to AMI, AGL suggests there should be a review of performance targets following the rollout of AMI. AMI will lead to better outage management & restoration, network planning and asset management. Given customers are already paying for the investment in AMI, performance targets should be reset accordingly.

In relation to GSL payments, AGL supports the continuation of the payments to ensure disadvantaged customers are appropriately compensated for poor network performance and to encourage distributors to balance these costs with the investment in network improvement.

Efficiency benefit sharing scheme

AGL supports an efficiency benefits sharing scheme that provides an incentive to distributors to reduce their underlying operating costs. We support a 30:70 sharing ratio between distributors and customers respectively, given customers pay the significant cost (and therefore bear the risk) of funding a relatively secure regulated return on the distributors' assets.

There should be a specific incentive for distributors to maximise the effective utilisation of AMI technology and realise the expected efficiency gains. This gain should be shared with customers who are the ones effectively paying for the investment in AMI.

Demand Side Management

AGL supports demand side management (DSM) initiatives that reduce network costs. However, it is important that where distributors have received separate funding for a DSM initiative that they do not realise an additional benefit under the proposed DSM allowance.

Accordingly, where DSM functions have been enabled through funding of AMI for small customers, it should be excluded from the proposed DSM allowance, except where the distributor is providing additional services or capabilities over and above that allowed for in the AMI cost recovery mechanism.

In developing any DSM initiative, it is vital that retailers are involved in the product design and that they provide the necessary customer interface and tariffs to end use customers.

Price review process

It is imperative that the distribution tariffs for each year are published early enough to allow retailers to make their own tariff adjustments by 1 January. Because retailers in Victoria have a requirement to publish tariffs 30 days in advance of a retail price change, distributors should be required to publish their rates by October. This would allow retailers enough time to calculate their new rates and publish their own tariffs.

If you have any queries in relation to this submission, please contact Michelle Shepherd on (03)8633 6263.

Yours sincerely,

p.p. Elizabeth Molyneux
General Manager Energy Regulation