18 November 2021

Warwick Anderson
General Manager – Network Pricing
Australian Energy Regulator
by email: AERPricing@aer.gov.au

Dear Warwick

Re: Standardised models for regulated metering services

CitiPower, Powercor and United Energy appreciate the opportunity to respond to the Australian Energy Regulator's (AER) consultation paper on standardised models for regulated metering services.

We support the standardisation of metering models and the AER's intention to save time and resources by streamlining the information requirements for metering proposals. We also appreciate the objective of striking a balance between structure and flexibility. These principles will provide a sense of security and consistency in metering models going forward.

We've considered the practical implications of using the draft models and consider them to be largely efficient. Therefore, our submission focuses on some technical feedback and recommendations to strengthen the clarity of the suggested models. These include:

- ensuring flexibility for non-labour price escalators to be proposed in the regulatory determination process
- improving transparency surrounding the generation of numbers for 'economies of scale' and productivity. We query what kind of analysis may be used to determine these inputs.

We also offer several improvement opportunities for the AER's consideration which would reinforce the overall useability and consistency of the models.

We would be happy to meet to discuss this letter or should you have any queries you are welcome to contact me on [redacted] or [redacted].

Yours sincerely

[redacted]

Megan Willcox
Head of Regulatory Performance and Analysis
CitiPower, Powercor and United Energy

1. Ensuring flexibility for non-labour price escalators to be proposed in the regulatory determination process

We do not agree with the AER's preliminary position to prevent networks from proposing non-labour price escalators in the standardised models for regulated metering services. We understand the AER has tended not to allow non-labour price escalators in recent regulatory determinations and changing the AER's position would require substantive evidence to be presented. Nonetheless, we consider the value of non-labour price escalation should remain subject to the regulatory determination process, with networks having the option to propose non-labour price escalators. We note that over time market conditions for non-labour inputs can, and have, substantially changed and networks should be afforded the opportunity to present evidence in support of non-labour price escalation reflecting efficient forecast costs.

Allowing flexibility in the standardised models for regulated metering services for networks to propose a value for non-labour escalation is more consistent with the propose-respond framework in the National Electricity Rules and clauses 6.5.6(c)(iii) and 6.5.7(c)(1)(iii) and which requires the AER to accept total operating and capital expenditure forecasts which reasonably reflect a realistic expectation of cost inputs required to achieve the operating and capital expenditure objectives.

2. Economies of scale and productivity

We note the AER has included inputs for both productivity and economics of scale adjustments in the operating expenditure calculations and the draft standardised metering expenditure model is pre-populated with an annual 0.5% productivity growth value - consistent with the AER's estimate for standard control services. We are concerned the AER will apply productivity assumptions from standard control services which are not appropriate for metering services. There are very limited opportunities for operating expenditure productivity improvements in relation to metering services. Operating expenditure for metering services largely relates to meter testing, IT system licencing fees and third-party communication charges, none of which lend themselves to the type of future innovations required to deliver productivity improvements. We also caution the AER against double counting productivity improvements by seeking to include both an input for productivity and economies of scale. We recommend the AER undertake industry consultation on any standard methodology it expects the industry to adopt to estimate productivity and/or economies of scale adjustments for metering services.

3. Improvement opportunities

We recommend the AER consider the following improvement opportunities for the final standardised metering models:

- enabling choice in the inflation forecasts to be either year-end June or year-end December
- clearer specification of the unit rates and dollar terms (real or nominal) throughout the model
- including model checks to assist with mitigating the risk of errors
- clarifying whether the blank line items in the 'Output/PTRM' tab are intended to provide flexibility for networks to include additional categories of expenditure, and if so whether these are input cells
- ensuring consistency in the colour coding of input cells, calculation cells and output cells.