APPENDIX 60

Meter pricing

Metering Pricing

1.1 Executive Summary

Energex's metering services are subject to regulatory requirements outlined in the National Electricity Law (NEL), the National Electricity Rules (the Rules), the AER's Framework and Approach paper (F&A paper), the AER's Expenditure Forecast Assessment Guideline and AEMO's Metrology Procedures, along with Queensland specific legislative requirements.

Energex has developed metering service charges for Type 6 metering customers in accordance with the NEL, the Rules and F&A paper which sets out the formulae for alternative control services. In accordance with the Rules, Type 6 metering service charges have been developed on a cost-reflective and efficient basis. In proposing a limited building block approach as the basis of the control mechanism for Type 6 metering, Energex has developed metering service charges consistent with the approach applied to standard control services.

Energex has classified Type 6 metering customers according to the complexity of the metering services that they receive. This is approximated by the number and type of applicable network tariffs per customer. The main cost driver of metering services is the capital cost of the meters which is incurred to facilitate access to primary and secondary tariffs.

Energex is proposing an annual metering service charge for primary and secondary tariffs (controlled load and solar) over the 2015-20 regulatory control period as shown in Table 1. These prices are comparable with those in other Australian jurisdictions.

Table 1 – Indicative annual metering service charges for 2015-20 regulatory control period

$ Nominal	2015-16	2016-17	2017-18	2018-19	2019-20
Primary tariff	39.17	40.49	41.86	43.27	44.73
Controlled load	11.75	12.15	12.56	12.98	13.42
Solar PV	27.42	28.34	29.30	30.29	31.31

Note: Metering service charges are applicable per standard asset customer tariff. That is, if a customer has multiple primary network tariffs, multiple primary metering charges will apply.

To ensure that Type 6 metering costs are appropriately allocated, Energex is proposing to apply exit fees in instances where Type 6 meters are removed, at the request of a customer churning to the Type1-4 metering market over the forthcoming regulatory control period. An exit fee is proposed to recover the 'sunk' or stranded costs associated with Energex's past investment consistent with the Revenue and Pricing Principles under the NEL.

While the F&A paper classified exit fees as an auxiliary metering service with a price cap, Energex has provided further details on the development of proposed exit fees as part of this appendix (rather than appendix 54), given it has ramifications for Type 6 metering customers.

Energex has developed exit fees in accordance with Energex's proposed cost build up approach which complies with the AER's price cap formula set out in the F&A paper. The proposed exit fees are a combination of a stranded asset fee representing the average written down value of the Type 6 meters in the MAB and an administrative fee representing the cost of processing the meter removal.

1.2 Regulatory Requirements

Energex's metering prices for the 2015-20 regulatory control period are regulated under Chapter 6 of the Rules, which sets out the economic regulation of distribution services, including processes for the annual pricing proposal.

Energex's type 6 and auxiliary metering services are subject to regulatory requirements outlined in the Rules (part I), the AER's F&A Paper, the AER's Expenditure Forecast Assessment Guideline and AEMO's Metrology Procedures, along with Queensland specific legislative requirements (as found in the Queensland Electricity Industry Code).

1.2.1 COAG Energy Council Rule Change Proposal

In April 2014, the AEMC released a Consultation Paper[1] on the COAG Energy Council's (formerly SCER) rule change proposal. The COAG Energy Council's rule change proposal specifies that exit fees are to be set based on the alternative control service metering regulatory asset base and the operational costs attributable to transferring the customer to an alternative service provider[2].

1.3 Key Policies

In developing metering service charges for Type 6 metering and exit fees for the removal of a Type 6 meter, Energex has considered its following pricing policies:

- Promotion of price stability through the development of an ongoing annual metering services charge (rather than an upfront charge) consistent with current practice and proposed arrangements in other jurisdictions
- Delivery of cost reflective prices through a daily fixed metering services charge
- Delivery of an administratively efficient charging mechanism that can be easily applied operationally and updated automatically.

[1] AEMC, *Consultation Paper – National electricity amendment (expanding competition in metering and related services) Rule 2014*, April 2014
[2] SCER, (October 2013), Introducing a New Framework in the National Electricity Rules that provides for increased competition in metering and related services.

1.4 Methodology for Type 6 Metering Service Charge

As set out in chapter 25, Energex is proposing a limited building block approach as the basis of the control mechanism for Type 6 metering services to develop a price cap in accordance with the F&A paper. Energex's proposed charging mechanism for Type 6 metering services is the type and number of applicable network tariffs.

1.4.1 Applicable network tariffs

Energex has classified Type 6 metering customers according to the complexity of metering services that they receive. This is approximated by the type and number of applicable network tariffs per customer. A primary cost driver of metering services is the capital cost of the meter which is incurred to facilitate access to primary and secondary tariffs.

1.4.1.1 Customers on Primary Tariffs

Energex's standard asset customers (SAC) with Type 6 metering installations access a number of primary network tariffs including:

- Residential Flat (8400)
- Residential ToU (8900)
- Peak smart ToU (7600)
- Business Flat (8500)
- Business ToU (8800).

The forecast number of customers on primary tariffs is shown in Table 2. This is based on the average historical growth of Energex's applicable tariff numbers.

Table 2 – Forecast volume of customers on primary tariffs

Customer Type	2015/16	2016/17	2017/18	2018/19	2019/20
Primary	1,393,042	1,407,467	1,422,042	1,436,768	1,451,646

1.4.1.2 Customers on Secondary Tariffs

In addition Energex's SAC customers with Type 6 metering installations access a number of secondary tariffs including:

- Controlled Load – Super Economy (9000)
- Controlled Load – Economy (9100)
- Solar PV Net with FiT (8c) (7500)
- Solar PV Gross (9700)

- Solar PV Net (9800)
- Solar PV Net with FiT (44c) (9900).

Customers on secondary tariffs will incur additional metering service charges reflecting the number of meters and/or the level of complexity of their metering installation. The forecast volume of controlled load and solar PV tariffs is shown in Table 3. These forecasts are based on average historical growth, noting that the forecast volume of solar PV tariffs has been adjusted downwards given the removal of the solar bonus scheme (ie. feed-in tariffs).

Table 3 – Forecast volume of customers on secondary tariffs

Customer Type	2015/16	2016/17	2017/18	2018/19	2019/20
Load Control	740,012	743,305	746,612	749,934	753,271
Solar PV	323,232	353,232	382,232	409,232	434,232

1.5 Proportion of revenue assigned to tariff categories

Energex proposes to establish a price cap for type 6 metering, which will be recovered as a daily fixed metering services charge.

Energex apportions the revenue requirements from the limited building block approach across the primary and secondary tariff groups, noting that applicable tariffs are considered a proxy for the complexity of the metering services provided. The revenue requirement is allocated based on estimated relative installation costs associated with the metering requirements for primary and secondary network tariffs. This approach has been adopted given that the metering installation costs are capitalised into the metering RAB (soon to be MAB) which is the key driver of metering revenue requirements. As such, Energex considers it appropriate that the relative installation costs for primary and secondary tariffs is used as the weighting for both the recovery of return on and return of metering capital as well as operating expenses for Type 6 metering.

Energex estimated that the relative installation costs based on 2012-13 labour rates, time to install meters and the 2012-13 cost and proportion of single phase and multi-phase meters. These key assumptions are:

- The 2012-13 labour rate is $67.55 for technical service person
- The time to install a single and multiphase meter is on average 1.15 hours and 1.87 hours respectively (including travel time)
- The unit cost of a single phase single element meter is approximately $50, a single phase dual element meter is approximately $125 and a multiphase meter is approximately $173 (excluding oncosts and overheads)
- The volume of single phase, single element meters and multi-phase meters is 95 and 5 per cent respectively.

The primary tariffs were assigned a relativity of 1.0 and represented the average cost of installing the relevant metering for a primary tariff.

Controlled load tariffs were assigned a relativity of 0.3 and it is assumed that the capital cost reflects a single phase, single element meter only. The cost of the installation labour and the relay are assumed to be allocated to standard control service in accordance with the F&A paper.

Solar PV tariffs were assigned a relativity of 0.7 which was developed taking into account the following considerations:

- Solar PV is always installed post initial connection and therefore requires an extra site visit
- There are a high percentage of meters that are not compatible with solar PV approximately (75%) and therefore require a meter replacement
- The remaining 25% of meters are not pre-programmed to allow for solar PV so require a site visit for reprogramming
- In accordance with Energex's revised disposal policy, it is assumed no removed meters are refurbished.

Table 4 sets out the estimated installation costs, the relativities and proportion of revenue assigned to tariff categories.

Table 4 - Proportion of revenue for Type 6 metering services

Tariff Category	Description	Estimated Installation Cost	Relative Installation Costs	Proportion of revenue assigned to tariff category[1]	Revenue Requirement for 2015-16
Primary Tariffs	• Residential flat (8400) • Residential ToU (8900) • Peaksmart ToU (7600) • Business flat (8500) • Business ToU (8800)	$273.87	1.00	76%	54.6
Controlled Load Tariffs	• Super Economy (9000) • Economy (9100)	$79.09	0.30	12%	8.7
Solar PV Tariffs	• Solar PV Net with FiT (8c) (7500) • Solar PV Gross (9700) • Solar PV Net (9800) • Solar PV Net with FiT (44c)(9900)	$191.44	0.70	12%	8.9

Note: The relative installation costs are weighted by the forecast 2015-16 tariff category volumes to derive the proportion of revenue assigned to tariff category.

Finally, the revenue requirement per tariff category was then divided by the forecast volume of active tariffs to derive the annual metering service charge as presented in table 5.

1.6 Annual Metering Tariffs

Energex's proposed annual metering service charges have been determined based on the required revenue each year as calculated using the PTRM (Attachment 5), the proportion of revenue assigned to primary and secondary tariffs and the forecast number of active tariffs each year as discussed in section 3.

The forecast annual metering service charges for each tariff type and combinations of tariff types are shown in Table 5 below.

Table 5 – Indicative annual metering service charges for 2015-20 regulatory control period ($ nominal)

Tariff Type	2015/16	2016/17	2017/18	2018/19	2019/20
Primary	$39.17	$40.49	$41.86	$43.27	$44.73
Load Control	$11.75	$12.15	$12.56	$12.98	$13.42
Solar PV	$27.42	$28.34	$29.30	$30.29	$31.31
Primary + Load Control	$50.92	$52.64	$54.41	$56.25	$58.15
Primary x 2	$78.34	$ 80.98	$83.71	$86.54	$89.46
Primary + Load Control × 2	$62.67	$64.78	$66.97	$69.23	$71.57
Primary + Load Control+ Solar PV	$78.34	$80.98	$83.71	$86.54	$89.46
Primary + Solar PV	$66.59	$68.83	$71.16	$73.56	$76.04

1.7 Exit Fees

To ensure Type 6 metering costs are appropriately allocated, Energex is proposing to apply exit fees in instances where Type 6 meters are removed at the request of the customer, who churns to Type 1-4 metering market. An exit fee is proposed to recover the 'sunk' or stranded costs associated with Energex's past investment in accordance with the Revenue and Pricing Principles.

In the event that a type 6 meter is removed, Energex will dispose of the meter in accordance with its revised policy. Energex strongly maintains that exit fees should apply to those customers given that other remaining type 6 metering customers should not bear additional costs, nor should Energex bear this cost if the opportunity to recover at least efficient costs of the meter installation has not be afforded to the business. Energex notes that there is some precedent for the exit fees as the AER has previously approved such fees in South Australia[3]. Energex has proposed a cost build up approach for price cap services including exit fees. The cost build up includes two components; the stranded asset value of the meter and the administrative cost of processing the meter removal.

[3] SA Power Networks, Annual Pricing Proposal 2013-14, 24 May 2013

The first component of the exit fees has been derived based on the average written down value of Type 6 meters having consideration for the purpose of the meter installation. This approach has been proposed given that it is not practical or cost effective to determine the written down value for each meter removed. The proposed exit fees seek to take into account the extent to which the meter installation contributed to the MAB by identifying the purpose of the installation; that is, whether the meter installation facilitates access to a primary or secondary tariff. The proposed exit fees do not include the recovery of the portion of non-system systems allocated to the MAB. The second component of the exit fees is the administrative cost of processing the meter removal.

The exit fees are based on:

- The proportion of revenue assigned to respective tariff categories set out in Table 4,
- Energex's forecast MAB in the relevant year in which the fee is to apply (excluding shared assets allocated to the MAB),
- the forecast number of active tariffs in the relevant year,
- an administration charge of $31 to cover the operational costs associated with transferring a churned customer in Energex's IT systems.

Energex has developed price cap exit fees as set out in Table 6 which comply with the AER's alternative control service formula set out in the F&A paper. The price path reflects the escalation of:

- the stranded asset base by CPI each year in accordance with the mechanics of the AER's PTRM model
- the administrative fee by CPI and labour escalation rate.

Table 6 – Energex's proposed metering exit fees

	2015/16	2016/17	2017/18	2018/19	2019/20
Meter removal - primary tariffs	$ 290	$ 297	$ 306	$ 315	$ 324
Meter removal - controlled load tariffs	$ 109	$ 112	$ 116	$ 120	$124
Meter removal - solar PV tariffs	$ 31	$ 32	$ 34	$ 36	$ 38

Note that the exit fee for solar PV tariffs is the administrative fee only. This is because it is assumed that any customer with a solar PV tariff has a meter that facilitates access to a primary tariff. In the event a solar PV tariff ceases to apply, the meter would not be removed.

Energex understands that the proposed approach to charge exit fees for the remove of Type 6 meters is consistent with the COAG Energy Council's proposed Rule change. Moreover,

Energex notes that this approach is also consistent with the NSW distribution network service provider proposals.