

27 March 2015



positive energy

Mr Chris Pattas
General Manager - Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Pattas,

Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge

Energex welcomes the opportunity to provide comment on the Australia Energy Regulator's (AER) consultation paper - Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge. This consultation paper seeks to provide an alternative to type 6 metering exit fees with a view to facilitating metering contestability.

Understandably the AER is seeking to have their upcoming NSW, ACT, Queensland and South Australia determinations accommodate the Australian Energy Market Commission's competition in metering rule change. However, Energex has serious reservations about the AER pre-empting the outcomes of a highly complex and potentially costly rule change, through very limited consultation with impacted parties particularly customers. In seeking to adopt an alternative approach to upfront meter exit fees, the AER is essentially seeking to facilitate a metering market rather than letting the market develop at its own accord. The short timeframe for consultation given the complexity of the issue is concerning especially as customers have not been consulted in a meaningful way.

From Energex's perspective, the issue at point is the recovery of efficient type 6 metering asset investment in accordance with the Revenue and Pricing Principles under the National Electricity Law (NEL). Energex's preferred position from an economic and legal viewpoint, as set out in the regulatory proposal, is to allow for a metering exit fee attributable to an individual churning customer. A metering exit fee was specified in the AER's final Framework and Approach (F&A) decision (p41 and 116) for Queensland distribution businesses. Energex advised its customers through the consultation process that it would be proposing metering exit fees. Energex developed exit fees on a cost build-up approach reflecting the stranded asset value and the administrative cost of processing the meter removal. The benefits of a metering exit fee are that customers electing to churn from the regulated metering market, face a representative cost of their stranded meter

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asset value, rather than having other customers bear the cost of an individual customer's metering choice (as in the case of option 2).

The consultation paper is unclear as to whether this is a departure from the F&A for Queensland. Given the limited timeframe Energex has not formed a view at this stage. The difference between Energex's regulatory proposal and the AER's alternative approaches is that the services have been renamed and recovered across a wider group of customers in the case of option 2; that is both regulated metering customers and churned customers. This proposal will result in distributors charging customers that churn to the contestable meter market for stranded type 6 metering assets on an ongoing basis until such time as the assets are fully depreciated. This would be approximately 15 years based on the current metering asset base. Arguably a distribution service has been provided by Energex in the upfront provision of a type 6 meter which will continue to be paid for over time by customers regardless of whether the customer churns.

Energex would highlight that were such an approach adopted, it would essentially provide for an ongoing residual metering capital cost charge in the subsequent determinations. In making such a decision the AER would principally bind customers, distributors and itself to the recovery of these services in future determinations. Energex and other distributors would seek regulatory certainty with respect to this issue if either of these alternative approaches were to be implemented. Customers' understanding of and willingness to pay ongoing capital related metering charges is likely to be low, particularly for those customers who have churned. Energex considers that will be very difficult for customers to understand such a charge applying to them up to 15 years after a meter is removed ie for customers there is a large disconnect between having and using the meter and paying for the metering asset.

Definitions of Services and Recovery Mechanism

The consultation paper sets out two services referred to as a transfer service and an administration service. Energex believes that the service definitions need to be more clearly articulated and could be renamed to better describe the nature of the service. The consultation paper was ambiguous on how the services would be recovered as per the proposed recovery mechanisms set out on page 5.

Energex considers that the transfer service should be renamed and redefined as the way it is currently drafted could be easily confused with the administration fee. Energex considers that the transfer service could be defined as services required to complete a customer initiated switch (meter transfer) from a distribution network service provider (DNSP) provided type 5 or 6 meter to a new provider which relates specifically to the recovery of stranded asset costs associated with the removal of the DNSP's meter over time until fully depreciated. For clarity this does not include the associated administrative tasks of updating records and processing information. The definition of the administration service appears sufficient. Presumably this is a one-off price capped service, the recovery of which is not related to option 1 or option 2.

Energex understands that under both options the transfer service is recovered through the unavoidable annual charge from current, churned and new customers although this was not clearly articulated in the consultation paper. The difference being that under option 1 the transfer service is recovered from the unavoidable annual charge with other type 6 meter services (ie the provision and installation of the meter) while under option 2 the transfer service is recovered solely through the unavoidable annual charge. Option 1 essentially provides for churning customers to pay off their type 6 metering assets over time rather than as an upfront charge. Option 2 essentially

shares the stranded asset value associated with the churning customers across both churning and remaining customers thereby providing a cross-subsidy from remaining to churning customers. Energex would appreciate clarification on its understanding of alternative proposal to assist in the preparation of the revised proposal.

New/Upgraded Meters

Unlike in NSW, Energex has not and does not charge upfront for new and/or upgraded meters. Energex's metering services charges, outlined in the regulatory proposal, are based on a building block approach which is inclusive of new and upgraded meters. This approach was adopted for customer equity and administrative efficiency, noting that the revenue apportionment methodology applied across metering customers took account of these factors thereby promoting cost-reflectivity.

Energex does not support an upfront metering charge for new and/or upgraded meters given the price impacts for customers and administrative costs of system implementation costs. Energex does not consider it appropriate to charge new and upgrading customers upfront and have those customers also attract an unavoidable annual charge. To ensure that new and upgrading customers would not be charged would involve substantial administration effort. The implementation costs could be large for a relatively small number of customers for a limited period of time noting that there are likely to be significant system and process changes following the competition in metering rule change. Furthermore, Energex in preparing its regulatory proposal did not consult or advise its customers of having to pay upfront for new and/or upgraded meters.

Depreciation

A separate but related issue to meter exit fees or transfer service is that of applying an alternative depreciation profile. Over time Energex expects declining demand for type 6 meters as customers churn, therefore the current approach to depreciation (straight-line depreciation on an indexed asset base) that produces stable prices for type 6 meters might not be the most appropriate approach going forward. Energex considers that an alternative form of depreciation that front loads depreciation, resulting in declining prices for type 6 meters over time is more appropriate. This will result in customers facing relatively 'stable total costs' as they churn i.e. declining residual charges for type 6 meters and the charges they will face for new/smart meters. This could foster competition in metering in the long run. Energex is investigating alternative depreciation profiles with a view to proposing this in its revised regulatory proposal in July 2015.

Recommendation

As discussed above, Energex continues to support the application of upfront meter exit fees. However, it appears clear from this consultation process and the AER's recent draft determinations that concerns regarding barriers to metering competition will likely result in no upfront meter exit fees applying. In which case, Energex would prefer the adoption of option 1. Energex considers option 1 to be more preferable on account of it does not provide cross-subsidies from regulated metering customers to churned customers, rather it allows churning customers to pay off the stranded asset value over time. This very broadly aligns with customers' feedback of not being willing to pay anymore for existing services which would not be the case under option 2. In addition option 1 is administratively less costly. In providing a preference for option 1, Energex is relying on the AER's advice that it is compliant with the NEL and the National Electricity Rules.

Energex wishes to re-emphasise that it does not support upfront metering charges for new and/or upgraded meters.

Should you have any queries regarding this submission, please contact Ms Leigh Henderson, Network Regulatory Economist, on (07) 3664 4118.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kevin Kehi', written in a cursive style.

Kevin Kehi
Executive General Manager
Strategy, Regulation and Governance