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

Email: NSWACTelectricity@aer.gov.au

Dear Mr Pattas

AER Consultation Paper – Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge.

EnergyAustralia welcomes the opportunity to make a submission to the Australian Energy Regulator's (AER) consultation paper titled "Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge".

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to 2.6 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. EnergyAustralia owns and operates a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

1. Background

EnergyAustralia supports the AER's endeavors to develop a suitable cost recovery mechanism that seeks to minimise any annual or lump sum meter replacement fee (exit fee) imposed by NSW and ACT electricity distributors in the contestable metering market. It is unfortunate that at this late stage in the determination process that the AER has advised that rule constraints prohibit the recovery of any residual meter value via adjustments to the standard control service (SCS) regulatory asset base (RAB). This approach would have seen an increase in distribution use of system charges to all customers but removed a significant barrier to a market led roll out of new meters into these jurisdictions.

The AER has now suggested a different approach whereby the residual meter capital would be recovered through an annual metering charge that applies to all customers in respect of an alternative control service (ACS). It is proposed that the ACS would be split into two components including an avoidable charge (for customers that secure metering from another metering provider) and an unavoidable metering charge (for all customers to recover the residual cost of the existing meter). There a two options for how this proposal could be implemented and they differ in the allocation of the cost recovery of the metering asset base (MAB). Stakeholders are now being consulted on their preference of these two options.

2. Preferred Option

Based on the limited time we have been given to respond to this consultation and assuming the indicative cost allocations are reflective of the final outcome EA provides the following comments on our preferred option:

While the AER prefers Option 1 due to its simpler application and administration it also imposes a significant unavoidable annual charge to all customers including those who seek to enter the contestable metering market. This creates an additional barrier to the roll out of smart meters. The AER is now of the view that Option 1 is also preferred because it reduces the cross subsidy between customers who take up new meters and those who remain on regulated meters. However, it was our understanding, in previous discussions, that the AER supported the principle that every customer benefits from a viable market led roll out of smart meters so smearing any residual undepreciated value of existing meters was appropriate. This proposition is reinforced by the original AER proposal to smear any residual meter value across all customers via an increase in use of system charges.

Option 2 is preferred by EA as we believe it will deliver an outcome most aligned to the former proposal of a smeared recovery (via DUOS) of the residual meter value of regulated meters. It will also better support a move to contestable metering which will provide customers with choice and a variety of new products and services. We seek clarity from the AER that the unavoidable annual charge will also factor in the depreciated value of the remaining existing stock and be adjusted accordingly.

3. Summary

EA is aware that the distribution businesses have proposed an annual metering administration fee which is not discussed in this consultation paper. Obviously this additional fee, if approved by the AER, will further dampen the acceptance rate by customers of smart metering under a market led roll out.

While EA prefers Option 2 we would also like the AER, in consultation with the AEMC, to explore further options (even if this requires a rule change) whereby the depreciated cost of the residual meters can be allocated to the RAB in future years to avoid additional annual metering costs for customers seeking the advantages of the contestable metering market.

Should you require any further information regarding this submission please do not hesitate to contact me on 03 8628 1437.

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager