

29 January 2015

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Email: QLDelectricity2015@aer.gov.au

Dear Mr Roberts,

RE: Qld electricity distribution regulatory proposals 2015-16 to 2019-20 Issues paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Australian Energy Regulator's (AER) Qld electricity distribution regulatory proposals 2015-2016 to 2019-2020 (the proposals) Issues paper (**the Issues Paper**).

The ERAA represents the organisations providing electricity and gas to over 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

As our members are considered one of the primary parties involved in the roll out of smart meters under a market driven approach, the ERAA submission is primarily focused on the metering fees proposed by Energex and Ergon Energy (the Qld Distributors). The proposals are also of significant interest to our members as network costs comprise approximately 50% of the retail bill.¹

The ERAA supports the framework and approach set out in the AER's Issues Paper to assess the regulatory proposals of the Qld Distributors. The reclassification of metering types 5-6 as alternative control services from standard control services is an important change in the context of the Australian Energy Market Commission's Rule Change process to support metering contestability and with it, a market driven smart meter rollout.² This is consistent with the AER's draft decision in November 2014 related to the NSW distribution businesses (NSW draft decision).

In the NSW draft decision, the mechanism to compensate the NSW distribution businesses (the NSW Distributors) for the residual value of the metering assets is achieved through the transfer of this value to the standard control service³. The utilisation of the approaches outlined above for the Qld Distributors' proposals should lead to lower exit fees, deliver streamlined administration and minimise cross-subsidies between customer groups.

Metering fees

A significant impediment in the development of a viable business case for the market driven rollout of smart meters are excessive upfront costs that may arise through high metering exit

¹ Queensland Competition Authority Final Determination Regulated Retail Electricity Prices 2014-2015, May 2014, p.4

² AER Issues paper Qld Electricity Distribution regulatory proposals, p.40

³ AER Draft decision, Ausgrid, Endeavour Energy and Essential Energy, attachment 16



or transfer fees (exit fees). The ERAA is of the view that the Qld Distributors' proposed metering exit fees are sufficiently high to act as a disincentive for consumers to select a smart meter. This, therefore, may delay the emergence of metering contestability in the Queensland market. In our view, the metering exit fees outlined in the Qld Distributors proposals are not efficient or in the long term interests of consumers.

The ERAA notes that the Qld distributors proposed administration fees appear consistent in structure and approach to those set out by the NSW distributors. The ERAA recommends that the AER investigates the veracity of these fees when considering the QLD distributors' proposals.

When assessing what the annual metering charges should be for the Qld distributors, the ERAA encourages the AER to set these charges at a level that is not only within an efficient range but also promotes entry into the market for meter provision. Promoting efficient market entry will allow customers to obtain advanced metering infrastructure from a range of competitive providers and therefore benefit from products and services that they could not otherwise access. Setting annual costs at a level below a new entrant's cost of service provision provides little incentive for new parties to enter the market. Effective competition, and, therefore, the diversity of customer choice, will suffer.

The removal of exit fees and clearly defined and efficiently set metering charges are both necessary to promote effective competition in metering and related services and to allow customers to compare the costs and benefits of different metering service options.

Consumer engagement

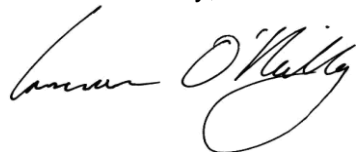
The Qld distributors have undertaken customer engagement as an important input into their regulatory proposals. On review, the ERAA questions how the Qld distributors are aware of their customer's willingness to pay for the security of supply in the absence of prescriptive security standards. The publication of any documents which provide further clarity on this issue would be helpful.

On the basis of these issues outlined in this submission, the ERAA recommends that the AER exercise its full powers to seek further information from the Qld Distributors to justify all aspects of their regulatory proposals, inclusive of matters raised by our members in their submissions.

The key dates for the AER determination are currently indicative with the preliminary decision expected on 30 April 2015.⁴ As retail price deregulation will commence in south-east Queensland from 1 July 2015, an earlier than proposed timeframe for the AER's preliminary decision is critical. Retailers require a minimum of six to eight weeks notification from networks of price changes to enable tariff development, system testing and customer communication. As retailers closely follow the network price changes any delay will impact retailers.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia

⁴ AER Issues paper Qld Electricity Distribution regulatory proposals, p.8