



Final decision

## **CitiPower and Powercor**

**Application for the determination of a  
customer requested service fee  
under the revised AMI Order in Council**

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## Summary

CitiPower and Powercor made a fees application for an advanced metering infrastructure (AMI) bring forward service fee on 12 November 2010 . These fees are contemplated by the AMI revised Order in Council. The fee is proposed to be incurred by customers requesting to have a smart meter installed ahead of schedule.

The AER assessed the proposals against the requirements set out in the revised Order and selected inputs used within the Victorian distribution determination 2011-15.

The proposals were also published by the AER on 29 November 2010 and comments were invited from interested parties. Origin Energy and AGL made submissions.

The AER has approved CitiPower's and Powercor's proposed charges. The final decision charges are set out in section 5.

# 1 Introduction

In 2006 the Victorian Government decided to introduce advanced interval meters (smart meters) to Victorian electricity customers. The decision required advanced metering infrastructure (AMI) to be installed throughout Victoria.

AMI enables two way communication between a customer and their distribution network service provider (DNSP). Metering services which previously required on-site manual provision can now be provided remotely using AMI. In addition, the technology will allow for a variety of different services that were not previously possible.

Under sections 15A and 46D of the Electricity Industry Act 2000, the Victorian Governor in Council published an Order in Council in August 2007. It outlined the regulatory arrangements relating to the AMI rollout.

The Order in Council was amended on 25 November 2008, 22 January 2009 and 31 March 2009 (the 'revised Order'). The revised Order requires Victorian DNSPs to install remotely read advanced interval meters for all households and businesses consuming less than 160 MWh per annum by 31 December 2013. Schedule 1 of the revised Order outlines the installation schedule of smart meters by Victorian DNSPs.<sup>1</sup>

On 1 November 2009 the Victorian Government introduced a premium feed in tariff (PFiT) for electricity customers with small scale solar photo voltaic (PV) systems. Customers with PV systems of up to five kilowatts are guaranteed a minimum credit of 60 cents per kilowatt hour for excess electricity fed back into the grid<sup>2</sup>.

The introduction of PFiT has caused in an increase in the number of electricity customers connecting PV systems. CitiPower and Powercor claim that this has lead to an increase in customers requesting installation of smart meters ahead of the schedule outlined in the revised Order. To date, CitiPower and Powercor have been servicing these requests by charging customers a truck visit fee of around \$150.

Clause 9 of the revised Order allows the Victorian DNSPs to make a fees application to the AER to implement a customer requested service fee. The revised Order states that a customer requested service fee is paid by the retailer to the DNSP when the customer of that retailer requests a regulated service to a standard in excess of what would be normally provided.

On 12 November 2010, CitiPower and Powercor submitted a fees application to the AER for an AMI bring forward service fee. CitiPower and Powercor intend to charge the bring forward service fee ("the fee") instead of the truck visit charge currently incurred by customers requesting installation of smart meters ahead of schedule.

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<sup>1</sup> Schedule 1 requires 10 per cent of remote read interval meters are to be installed by 31 December 2010, 25 per cent by 30 June 2011, 60 per cent by 30 June 2012, 95 per cent by 30 June 2013 and 100 per cent by 31 December 2013.

<sup>2</sup> Department of Primary Industries, Feed-in tariffs, <http://new.dpi.vic.gov.au/energy/policy/greenhouse-challenge/feed-in-tariffs>, 26 October 2010, accessed 8 December 2010.

## 2 The revised Order in Council

Clause 9 of the revised Order deals with customer requested service fees. CitiPower and Powercor have stated in their application that their proposed fee should be considered a customer requested service fee<sup>3</sup>.

Under clause 9.1, a DNSP is permitted to make a fees application that seeks the determination of a customer requested service fee to apply in the initial regulatory period in which the clause applies.

Clause 9.2 sets out that the AER must make its determination within 40 business days from the receipt of the application. If no determination is made within this time, the AER will be taken to have approved the application.

Clause 9.3 sets out that a customer requested service fee, unless other conditions are agreed to by a DNSP, must be paid by a retailer to the DNSP where:

- a customer of that retailer requests regulated services to a standard in excess of that normally provided
- the costs of providing those regulated services can be reasonably attributed to that customer

Clause 9.4 sets out that the AER must determine if a customer requested service fee recovers all the costs of providing the service that can be reasonably attributed to that customer.

Clauses 9.5 and 9.6 provide that clause 9 will not apply to requests for enhanced functionality or for enhanced service levels which are defined as:

"enhanced functionality" means, in relation to an AMI system, functionality which exceeds the requirements provided for in the Functionality Specification

"enhanced service levels" means, in relation to an AMI system, levels of service which exceed the requirements provided for in the Service Levels Specification

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<sup>3</sup> The AER notes that the bring forward service fee did not exist at the time the OIC came into effect. For this reason it is not considered as an excluded service and not regulated under the Essential Services Commission of Victoria's (ESCV) *Electricity Industry Guideline 14: Provision of Services by Electricity Distributors*.

### 3 CitiPower's and Powercor's bring forward service fee

CitiPower's and Powercor's proposed fee was released for public comment on 29 November 2010 via the AER website at [www.aer.gov.au](http://www.aer.gov.au) and separately circulated to interested parties.

Table 3.1 outlines the business hours and after hours charges for CitiPower's and Powercor's proposed fees. Relevantly, CitiPower and Powercor state in their applications:

This fee is to apply in the situation when the customer or customer representative requests the early installation of an AMI meter ahead of the scheduled roll out, the installer has uninhibited access to the property to undertake the meter exchange works and no other site works are required. Should additional site works be required then an Alternative Control Service fee shall apply<sup>4</sup>

**Table 3.1 CitiPower's and Powercor's proposed 'bring forward service fee' (\$2011 ex GST)**

Description	Business Hours	After Hours
CitiPower	63.12	67.30
Powercor	87.78	94.65

Source: CitiPower's and Powercor's fees application

Both DNSPs further advised that:

Over time the costs for proving the service will change, in all likelihood the costs will increase. The key component of the proposed fee is labour which is expected to escalate over the coming years.<sup>5</sup>

CitiPower and Powercor proposed that the real labour escalators outlined in the AER 2011–15 distribution determinations, and set out in table 3.2, should be used to adjust the bring forward service fee for future years.

**Table 3.2 CitiPower's and Powercor's proposed escalation, per cent per annum**

Description	2012	2013	2014	2015
CitiPower	-3.02	-2.22	-0.67	-1.4
Powercor	-3.02	-2.22	-0.67	-1.4

Source: CitiPower's and Powercor's fees application

CitiPower and Powercor also proposed indexation of the fee for inflation, using an annual consumer price index (CPI) escalator. As the charges outlined in table 3.1 are in 2011 dollars, the labour and CPI escalators will apply in 2012.

<sup>4</sup> CitiPower and Powercor, *AMI Bring forward service fee*, 12 November 2010, page 2

<sup>5</sup> CitiPower and Powercor, *AMI Bring forward service fee*, 12 November 2010, page 2



## 4 Submissions

On 10 December 2010, the AER received submissions from both AGL and Origin Energy. The submissions are available on the AER website at [www.aer.gov.au](http://www.aer.gov.au).

Both AGL's and Origin's submissions outlined their concern that the bring forward service fee may be used in conjunction with the truck visit fee.

Origin's submission stated:

If the fee was to be additional to the truck visit fee this would clearly be unacceptable, given that both fees relate to the cost to the distributor or replacing a meter<sup>6</sup>.

AGL's submission stated:

Under no circumstances does AGL support the introduction of the fee if it is to be applied (in addition to the existing truck visit fee)<sup>7</sup>.

Origin submitted that the bring forward service fee should be collected by CitiPower and Powercor directly from the customer, instead of via the customer's energy retailer.

AGL submitted that 'a similar fee reduction should apply to new connections and other meter alterations in addition to PFiT when an AMI meter is installed'.

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<sup>6</sup> Origin Energy, *AMI bring forward service fee proposed by Citipower and Powercor*, 10 December 2010

<sup>7</sup> AGL, *Advanced Metering Infrastructure Bring forward service fee proposed by CitiPower and Powercor*, 10 December 2010

## **5 Issues and considerations**

There are various issues that relate to CitiPower's and Powercor's proposed fee, pertaining to the revised Order, the inputs used to derive the proposed fee, the issues raised in AGL's and Origin Energy's submissions, and the overall assessment of the fee. These are set out in this section.

The AER sought submissions on CitiPower's and Powercor's proposed fees by 10 December 2010. Origin Energy and AGL made submissions, discussed below.

### **Submissions**

AGL's and Origin Energy's submissions outlined their concern that the fee may be used in conjunction with the truck visit fee. However, CitiPower and Powercor confirmed with the AER that the fee would replace the truck visit fee for ahead of schedule AMI meter installations.

Origin Energy's submission outlined their preference for the fee to be collected by CitiPower and Powercor directly from customers. The AER notes that the revised Order requires the fee to be paid by a retailer to the distributor, except as otherwise agreed by the distributor.

CitiPower's and Powercor's fees application specifies that the fee is to be billed 'via the retailer'. The AER notes that it is normal practice for distributors to charge retailers for any customer specific requests, for instance new connections.

It is also standard practice for customers to make requests to retailers direct, for any issues associated with their supply, not to distributors. Therefore it is appropriate that CitiPower and Powercor's fee be billed via the retailer to the customer.

AGL's submission outlined that 'a similar fee reduction should apply to new connections and other meter alterations in addition to PFIT when an AMI meter is installed'. The AER considers that this issue is outside the scope of a review on the proposed fee and therefore has no bearing on its analysis.

### **The revised Order**

As noted above, CitiPower's and Powercor's proposed fee is a customer requested service fee under clause 9 of the revised Order.

There are three main considerations set out in the revised Order which the AER must consider in determining a customer requested service fee.

First, such fees must relate to regulated services in excess of what is normally provided. All Victorian electricity customers consuming less than 160 MWh per annum are scheduled to have smart meters installed by December 2013. The AER considers that as the bring forward service fee is in relation to the installation of smart meters ahead of the revised Order's mandated rollout schedule, that it can be classed as 'in excess of what is normally provided'. Therefore, CitiPower's and Powercor's proposed fee meets the requirements of clause 9.3(a).

Second, clause 9.3(b) requires that the costs of providing the service must be reasonably attributed to the customer. Clause 9.4 sets out that the AER must

determine that the bring forward service fee recovers all of the costs attributed to the customer. This is discussed below.

Third, the AER considers that the installation of a smart meter ahead of schedule will not result in a customer receiving enhanced functionality or enhanced service levels to an extent beyond what would have been received had the smart meter been installed on its scheduled date. This meets the requirements of clauses 9.5 and 9.6 of the revised Order.

**Bring forward service fee**

Under the revised Order, the AER must determine if a customer requested service fee recovers all of the costs of providing the service that can be reasonably attributed to a customer.

In their applications, CitiPower and Powercor have provided a bottom-up model and a proposed method of escalating the proposed fee for future years. The two proposals are outlined in table 4.1.

**Table 5.1 CitiPower's and Powercor's bring forward fee model**

	<b>CitiPower</b>		<b>Powercor</b>	
	<b>BH</b>	<b>AH</b>	<b>BH</b>	<b>AH</b>
<b>Field Labour</b>				
Travel time - point to point	25 minutes	25 minutes	40 minutes	40 minutes
Travel time - jump the gate	5 minutes	5 minutes	5 minutes	5 minutes
Labour rate (\$2011)	\$116.36	\$128.91	\$108.76	\$120.54
<b>Back Office Labour</b>				
Rate - back office (\$2011)	\$60.83	N/A	\$60.83	N/A
Back office time (per event)	24 minutes	N/A	24 minutes	N/A
<b>Cost build-up</b>				
<i>Field activities</i>				
Incremental travel time	25 minutes	25 minutes	40 minutes	40 minutes
Avoided travel time	-5 minutes	-5 minutes	-5 minutes	-5 minutes
Labour rate (\$2011)	\$116.36	\$128.91	\$108.76	\$120.54
SUBTOTAL (\$2011)	\$38.79	\$42.97	\$63.44	\$70.32
<i>Back office scheduling</i>				
Incremental time	24 minutes	24 minutes	24 minutes	24 minutes
Labour rate (\$2011)	\$60.83	\$60.83	\$60.83	\$60.83
SUBTOTAL (\$2011)	\$24.33	\$24.33	\$24.33	\$24.33
<b>TOTAL (\$2011)</b>	<b>\$63.12</b>	<b>\$67.30</b>	<b>\$87.78</b>	<b>\$94.65</b>

Source: CitiPower's and Powercor's fees application

CitiPower and Powercor have proposed point to point travel times of 25 minutes and 40 minutes respectively. The AER considers these timeframes reasonable, as both are

in line with the 'travel time between jobs' approved by the AER in CitiPower's and Powercor's 2011–15 distribution determinations<sup>8</sup>.

CitiPower and Powercor have proposed a five minute 'jump the gate' travel time, which acts to lower the point to point travel time. CitiPower and Powercor have already been funded for the installation of smart meters, which includes the travel time costs associated with installing a meter according to the revised Order's rollout schedule.

As CitiPower and Powercor have already been funded for this cost as part of their AMI initial budgets and charges applications 2009-11 they have deducted the equivalent costs by reducing their proposed travel times associated with the bring forward fee. The AER considers this five minute reduction in total travel time is reasonable.

The AER concludes therefore that customers are only being charged the labour costs associated with travel and back office costs directly related to the request for meter installation ahead of schedule. This reduction in travel times ensures that there is no double recovery of costs by CitiPower and Powercor.

The labour rates for field labour are in line with the hourly charge out rates for line workers of CitiPower and Powercor as set out in their 2011-15 distribution determination<sup>9</sup>. The AER therefore considers that these labour rates are reasonable.

The back office labour rates are in line with the hourly charge out rates for back office workers and schedulers applicable to CitiPower and Powercor, as set out in their 2011–15 distribution determination<sup>10</sup>. The AER therefore considers that these back office labour rates are reasonable.

CitiPower and Powercor propose that there will be 24 minutes of back office labour for each request for an ahead of schedule smart meter installation. In a further submission, CitiPower and Powercor explained that the 24 minute estimate was derived from:

- 12 minutes to arrange a time to attend the site to install the meter on an ad-hoc basis
- 12 minutes to remove the scheduled activity from the standard roll-out schedule<sup>11</sup>

CitiPower and Powercor submitted that the proposed time of 24 minutes is less than the time approved by the AER in their 2011–15 distribution determination for new connections (30.6 minutes) which is a more complex service. In addition, CitiPower

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<sup>8</sup> AER, *Victorian electricity distribution network service providers distribution determination 2011-15*, October 2010, page 918

<sup>9</sup> AER, *Victorian distribution determination*, October 2010, page 917

<sup>10</sup> AER, *Victorian distribution determination*, October 2010, page 916

<sup>11</sup> CitiPower and Powercor, *Response to information requested*, 1 December 2010

and Powercor consider that the proposed time is more than the AER approved time for connections and disconnections (3.6 minutes) which is simpler service.<sup>12</sup>

The AER considers that the proposed time for back office labour is within the ranges approved for back office labour by the AER in its 2011-15 distribution determination. Therefore, the AER considers that the proposed time for back office labour is reasonable.

The final aspect of CitiPower's and Powercor's proposed fee is the proposal to escalate the fees over time by both a labour and CPI escalator. Labour and CPI escalators are used for a variety of alternative control services and standard control services and approved AER in the Victorian DNSPs' 2011-15 distribution determinations.

The AER notes that the labour and CPI escalators will apply to CitiPower and Powercor's fee only until 2013.

As all smart meters are due to be installed by December 2013, as the the AMI rollout progresses, the bring forward service fee will be less frequently requested, due to customers already having an AMI meter.

Any customer requesting a PV installation after having already received their AMI meter will not be subject to the fee. The labour and CPI escalators will therefore affect a declining number of customers.

The AER also considers that allowing the proposed cost escalators, both CPI and real labour, would ensure consistency with the AER's decision to escalate alternative control service charges by the CPI and real labour escalators in its Victorian 2011–15 distribution determinations.

Therefore, the AER considers the real labour escalation methodology proposed by CitiPower and Powercor, and set out in table 3.2, is reasonable. Furthermore, an annual adjustment by CPI is also considered reasonable.

The CPI escalator to be used to adjust the proposed fee for future years will be as follows;

$CPI_t$  is calculated as follows:

The Consumer Price Index, All Groups Index Number (weighted average of eight capital cities) published by the Australia Bureau of Statistics for the September Quarter immediately preceding the start of regulatory year  $t$ ;

**divided by**

The Consumer Price Index, All Groups Index Number (weighted average of eight capital cities) published by the Australia Bureau of Statistics for the September Quarter immediately preceding the start of regulatory year  $t-1$ ;

**minus one.**

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<sup>12</sup> CitiPower and Powercor, *Response to information requested*, 30 November 2010

For the reasons set out above, the AER considers that CitiPower's and Powercor's bring forward service fee recovers all the costs of installing AMI meters in advance of the scheduled rollout, that can be reasonably attributed to the customer in accordance with clauses 9.3(b) and 9.4 of the revised Order.

In addition, the AER notes that the proposed fees are significantly lower than what customers are currently paying for the same service under the current approach of charging customers a truck visit fee, this being around \$150 on average.

For instance, in CitiPower's area, a normal ahead of schedule meter upgrade currently costs \$143.90 for business hours and \$351.50 for after hours, GST exclusive. Under the proposed bring forward service scheme, these charges would reduce to \$63.12 for business hours and \$67.30 for after hours<sup>13</sup>.

For Powercor, a normal ahead of schedule meter upgrade currently costs \$154.72 for business hours and \$309.72 for after hours, GST exclusive. Under the proposed bring forward service scheme, these charges would reduce to \$87.78 for business hours and \$94.64 for after hours<sup>14</sup>.

Customers who seek early installation will therefore be better off under CitiPower and Powercor's proposed fee than being charged the existing rates for ad-hoc truck visits.

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<sup>13</sup> CitiPower and Powercor, *Response to information requested*, 6 December 2010

<sup>14</sup> CitiPower and Powercor, *Response to information requested*, 6 December 2010

## 6 Determination

The AER has determined that CitiPower's and Powercor's proposed bring forward service fee does recover all the costs of installing AMI meters in advance of the scheduled rollout, which can be reasonably attributed to the customer in accordance with the revised Order

The AER approves CitiPower's and Powercor's proposed bring forward service fees, and the proposed cost escalation, as set out in tables 5.1 and 5.2. The bring forward service fee will take effect from 1 January 2011.

**Table 6.1 CitiPower's and Powercor's approved 'bring forward service fee' (\$2011 ex GST)**

Description	Business Hours	After Hours
CitiPower	63.12	67.30
Powercor	87.78	94.65

**Table 6.2 CitiPower's and Powercor's approved escalation, per cent per annum**

Description	2012	2013
CitiPower	-3.02	-2.22
Powercor	-3.02	-2.22