27 November 2014

Mr Craig Madden
Australian Energy Regulator
GPO Box 520
Melbourne 3001

CC: Chris Pattas, General Manager Networks

Dear Craig

AMI 2015 Charges Revision Application

Origin Energy (Origin) appreciates the opportunity to comment on the application by Victorian distributors for the recovery of costs associated with advanced metering infrastructure (AMI).

On August 2014, the AER received AMI charges revision applications from the Victorian distributors. The applications included adjustments based on the difference between the costs incurred and budgets for 2013 and the cost forecasts for 2014 and 2015 and the original budgets in the initial determination.

The Advanced Metering Infrastructure Cost Recovery Order in Council (the Order) sets out the framework for the setting and recovery of prices, fees and charges in relation to the provision, installation, maintenance and operation of advanced metering infrastructure (AMI) in Victoria.

The Order, as revised, provides for a cost pass through model under which budgets for the rollout are established at the beginning of the period and then annual charges are determined based on actual expenditure. Notably, the revised Order provides that the determination of prices for metering services and other fees must reflect the efficient costs of a business providing the relevant services.

The proposals submitted by the distributors demonstrate significant variances both across the businesses and against approved expenditure allowances. Most notably, United Energy, AusNet and Jemena are proposing variances relative to the approved 2015 budget of 122%, 74% and 71% respectively. There is limited information available in the applications to help explain to customers why these extra costs are efficient, appropriate and necessary to provide the relevant services, i.e. what has changed that justifies the increase. This is in part because the distributors have claimed commercial in confidence over a significant amount of cost data. Greater transparency is particularly relevant when costs are exceeding the originally approved budget allowances by the magnitude proposed by AusNet and Jemena, as discussed in more detail below.

Origin recognises that expenditure can fluctuate and that forecast and incurred costs may not always align on infrastructure projects of this nature as there will be year on year variances on the number of installed meters. However, these variances will wash out

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over the life of a project. Notwithstanding, the total costs proposed by United Energy and Jemena significantly exceed allowed costs over the life of the project. In the case of AusNet, the difference appears excessive.

Where these distributors have made decisions during the implementation of the AMI project regarding how the infrastructure will be installed or the project managed (e.g. United Energy's decision to project manage in-house rather than outsource) that has resulted in excessive costs, then these businesses should be responsible for any costs that exceed the benefits of these decisions.

Tables 1 to 3 and Diagram 1 below highlight the impact of these cost overruns on the level of metering approved by the AER in its Final Determination on 2012–15 budget and charges applications.

Table 1: 2015 Proposed Single Phase Metering Service Charges (nominal)

	Proposed	**AER**	**Difference $**	**Difference %**
AusNet	$208.874	$160.19	$48.68	30.39%
CitiPower	$115.49	$127.46	($11.97)	(9.39%)
Jemena	$231.28	$219.90	$11.38	5.18%
Powercor	$108.96	$131.01	($22.05)	(16.83%)
United Energy	$160.44	$165.02	($4.58)	(2.78%)

* Citipower and Powercor's AMI charges are expressed in $ per NMI. AMI charges for JEN, SP AusNet and United Energy are all expressed in $ per meter

Table 2: 2015 Proposed 3 Phase Direct Connected Metering Service Charges (nominal)

	Proposed	**AER**	**Difference $**	**Difference**
AusNet	$289.98	$222.37	$67.61	30.40%
CitiPower	$150.94	$166.60	($15.66)	(9.40%)
Jemena	$284.22	$270.24	$13.98	5.17%
Powercor	$143.76	$172.80	($29.04)	(16.81%)
United Energy	$180.94	$186.11	($5.17)	(2.78%)

* Citipower and Powercor's AMI charges are expressed in $ per NMI. AMI charges for JEN, SP AusNet and United Energy are all expressed in $ per meter

Table 3: 2015 Proposed 3 Phase CT Connected Metering Service Charges (nominal)

	Proposed	AER	**Difference $**	Difference
AusNet	$414.20	$317.64	$96.56	30.40%
CitiPower	$190.65	$210.41	($19.76)	(9.39%)
Jemena	$315.99	$300.45	$15.54	5.17%
Powercor	$190.45	$228.96	($38.51)	(16.82%)
United Energy	$193.01	$195.52	($2.51)	(1.28%)

* Citipower and Powercor's AMI charges are expressed in $ per NMI. AMI charges for JEN, SP AusNet and United Energy are all expressed in $ per meter

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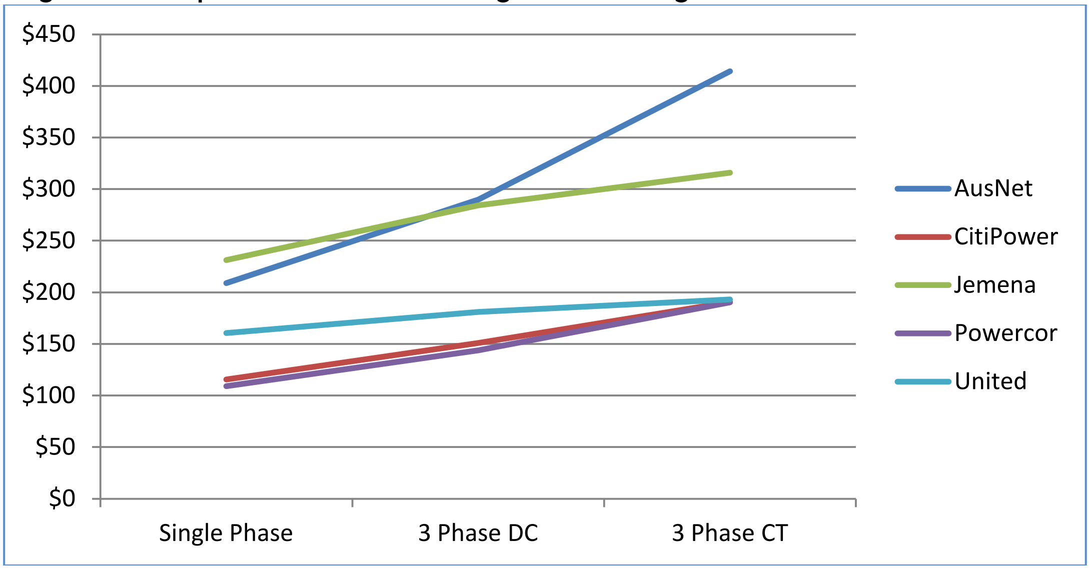
Diagram 1: Comparison of 2015 Metering Service Charges across Victorian Distributors



The comparison in Tables 1 to 3 shows that the majority of metering service charges for 2015 are broadly consistent with the AER Determination or in the case of Powercor, demonstrating sizable reductions.

Analysis of the revenue projections contained in the cost and revenue models submitted by each of the distributors shows that once all costs are incorporated over the life of the project, Powercor and Citipower remain consistent with the AER's Determination whereas Jemena and AusNet exhibit significant cost overruns.

Of greater concern is the fact that AusNet has advised the AER that it has detected instability in its AMI systems performance. Following a technical review, AusNet concluded that a number of customers are beyond the reach of AusNet's core wireless network requiring another communication technology to be deployed with additional investment in data management systems needed. The total cost of this remediation is estimated at $175M with the vast majority of costs expected to be incurred by 31 December 2015.

Taking into account this additional expenditure will result in AusNet registering a total overspend for the AMI project of $377M or 80% of its approved expenditure allowance.

To the extent that AusNet has not correctly designed its AMI, then customers should not be expected to incur costs of duplicating or correcting an asset that was poorly designed or installed in the first place. This would fail both the prudency and efficiency test as set out in the National Electricity Rules.

With respect to its approach to testing efficiency, Origin considers that benchmarking the unit costs associated with labour, materials and contractors would provide a greater degree of scrutiny over AMI costs than what has occurred to date.

Furthermore, as part of any benchmarking analysis, Origin encourages the AER to scrutinise the rate and quantity of both direct and indirect on-costs that have been allocated to AMI. While Origin recognises that the distributors have in place cost

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allocation methods that have been approved by the AER, Origin understands that these methods have not been subject to the same public scrutiny as a regulatory proposal. For this reason, Origin stresses the importance of ensuring that the allocation of costs across all of distribution business's activities, whether they are regulated or otherwise, is critical to avoid creating perverse incentives resulting from non-consistent cost allocation over time.

On the basis that these costs are directly payable by electricity consumers, Origin urges the AER, to every extent possible, to make the proposed costs and its assessment of the efficiency of these costs transparent and publicly available.

Should you have any questions or wish to discuss this information further, please contact me on (02) 9503 5674.

Yours sincerely,

Keith Robertson
Manager, Retail Regulatory Policy

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