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Friday 27 March 2015

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

MACQUARIE

Delivered via email

Dear Mr Pattas,

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

In March 2015, the Australian Energy Regulator ("AER") requested submissions regarding its paper; *Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge* ("Consultation Paper"). This submission contains the views of Macquarie's Corporate and Asset Finance Group ("CAF") only. CAF is one of six operating groups within the Macquarie Group ("Macquarie").

Macquarie is a global provider of banking, financial, advisory, investment and funds management services. CAF specialises in lending and asset finance, engaging Macquarie Bank Limited's balance sheet to provide tailored finance and asset management solutions.

Executive Summary

The Power of Choice Review supports competition as an essential element for the efficient long term deployment of smart meters. Based on our experience in the UK market, CAF agrees that competition is integral to the development of such an efficient market.

Macquarie supports the principals in the AER's Draft Determinations for the NSW electricity distribution networks which removed exit fees and transitioned the cost of metering assets to the Standard Control Services where a contestable meter churn event occurred.

Any market framework which results in an exit fee payable upon a contestable meter churn event will act as a barrier to competition and contestable market investment. As is well documented in the UK meter market, embracing competition promotes innovation, drives down prices and ultimately delivers greater benefit to all stakeholders, particularly consumers.

Accordingly, CAF notes the following in regard to the two options outlined in the consultation paper:

- Option 1 subverts competition by reintroducing the notion of an exit fee, thereby eroding retailer business cases for the deployment of smart meters en mass. Put simply, we believe Option 1 creates a significant barrier to the entry of new competitive providers; and
- Option 2 is consistent with the AER's draft determinations for NSW; the removal of exit fees, thereby allowing the residual capital value to be recovered from all customers.

CAF Background and Credentials

CAF has been involved in the competitive metering market in the UK since its inception in 2002, as both an adviser and an investor. CAF currently own a portfolio of over seven million traditional and smart, gas and electricity meters, and has invested and arranged over GBP700 million of equity and debt financing into various UK metering portfolios. Through our close relationships with retail and commercial energy suppliers, CAF has built and owns the largest portfolio of smart meters in the UK, with over 1 million installed industrial & commercial and residential smart meters. In addition CAF has played an active role in the various smart metering consultation processes over the last seven years arranged by the UK regulator ("Ofgem") and the Department of Energy & Climate Change.

In the UK, Macquarie is viewed as an independent third party meter owner and funder with a demonstrated history of working with a range of stakeholders including "in-house" energy supplier service companies, the majority of independent participants in the smart metering market, manufacturers, smart meter service providers and installers.

Detailed Submission

CAF considers Option 2 as the only feasible option. It supports competition and will, we believe, lead to the desired outcomes of *The Power of Choice*. In this regard CAF notes:

- Option 1 is effectively the reinstatement of an exit fee. Having a significant and fixed unavoidable charge will severely erode energy retailer business cases for the deployment of smart meters under a contestable framework. Macquarie is concerned that the AER's preferred position of Option 1 appears to significantly deviate from the conclusions of the Draft Determination.
- Under Option 1, third party metering providers will not be able to compete with a subsidised metering charge which excludes the capital cost of metering assets.
- Option 2 is consistent with the approach taken in the Draft Determination and promotes competition to the benefit of the consumer by avoiding an exit fee whilst still allowing the recovery of the residual metering capital cost.
- While Option 2 may be more administratively complex, it is better aligned to the competitive policy direction and will result in the adoption of contestable metering market. Option 1 will, we believe, stifle the development of a competitive market and deter investment.

We would be pleased to share our experiences from the UK contestable metering markets with the Australian Energy Regulator. If you have any questions or comments, please do not hesitate to contact Mr John Wilson on (02) 8232 4502 or via email john.wilson@macquarie.com

Yours sincerely
Macquarie Corporate and Asset Finance Limited

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