

19 November 2021

Warwick Anderson
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Australian Energy Regulator
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Sent via email: AERPricing@aer.gov.au

Dear Mr Anderson

Submission on AER's standardised models for metering services

SA Power Networks welcomes the opportunity to comment on the AER's preliminary standardised models for metering services.

We broadly support the AER's development of standardised metering models to use in future electricity distribution determinations, which will provide a simplified and consistent format of metering expenditure proposals and increase transparency for stakeholders on how metering services revenue and prices are determined.

SA Power Networks has focussed our review on the areas of the model that will be relevant in our 2025-30 regulatory proposal, reviewing the opex components of the Standardised Metering Capex and Opex Model and the price cap components of the Standardised Metering Pricing Model. To assist with our review of these models, we have, where possible, imported data from our 2020-25 regulatory proposal, enabling us to directly compare the functionality and results of the AER's standardised models against our previous models. We have provided some general feedback across all the models, with specific feedback on each model provided below.

The models are generally well presented and it is easy to identify the cells requiring user input.

We appreciate the AER providing the Model Description and Handbook with the preliminary models for review. We acknowledge this handbook does not contain detailed instructions to operate and complete the models, relying heavily on users knowledge of other AER models. For example, calculating the x-factors in the Metering Pricing Model uses similar functionality to that contained in the AER's Post Tax Revenue Model (PTRM). We would recommend a more detailed instruction document be provided with the final models to assist Distribution Network Service Providers (DNSPs) in completing the models and stakeholders in reviewing the model inputs and outputs.

We note that worksheet content is not always obvious from the worksheet name, for example, the 'Input|Prices' worksheet in the Standardised Metering Capex and Opex Model contains price escalation data. SA Power Networks recommends a review of worksheet names to better align with

worksheet content, improving the general usability of the model and the ability to quickly identify where relevant content is contained within the models.

Standardised Metering Capex and Opex Model

A key input to forecast metering services operating costs over the regulatory period is the volume of meters owned and operated by the DNSP. We note that in the capex specific inputs, there is scope to forecast meter volumes allowing for installation rates and meter churn by category. There is no metering volume forecasting methodology contained within the model for opex. SA Power Networks recommends inclusion of a meter volume forecasting worksheet, that is a common input source for opex and where applicable capex, within the model. This will provide greater transparency for stakeholders in reviewing the metering models to understand the proposed drivers for change in metering volume over the regulatory control period.

The Standardised Metering Capex and Opex Model reflects the core principles of the Standard Control Services opex model, with a single base year used to forecast opex. In SA Power Networks' 2020-25 Regulatory Proposal, we used an average operating cost per customer over a 3 year period, with 2018/19 data being added for our Revised Regulatory Proposal. This approach was taken to minimise the impact of cyclical variability in some legacy metering cost elements, for example sample meter testing. As can be seen in Table 1 below, SA Power Networks' meter testing expenditure varies significantly on an annual basis, as the number of tests completed is dependent on the number and size of meter populations due for testing in that year. SA Power Networks prefers an averaging method to set the base opex, which will account for cyclical variations in the opex forecast without the need to apply these variations as step changes.

Table 1 – Category Analysis RIN Table 4.2.2 - Meter Testing Data (\$ nominal)

	2014-15	2015-16	2016-17	2017-18	2018/19	2019/20
Meter Testing	300,008	655,973	518,591	356,213	1,111,691	818,003

In reviewing the capex and opex model, SA Power Networks imported average opex as the base year opex in the AER's preliminary Standardised Metering Capex and Opex Model, with other data from SA Power Networks' model populated into the various input sections as required. Unfortunately, we were unable to replicate our 2020-25 opex forecast using the AER's model. We had difficulty in tracing some data through the model with complex nested formulas used throughout the AER's model. For example, we were unable to verify the application of the Economies of Scale Factor on the opex forecast outcomes, with a cumulative rate of change applied that includes the change in customer numbers, labour rates and the economies of scale factor. SA Power Networks also questions the application of the Natural Log function in determining forecast output change associated with the change in customer numbers.

Where possible, SA Power Networks recommends simplification of the model, improving transparency of the calculations and providing stakeholders a better understanding of the impact of individual inputs on outputs.

Standardised Metering Pricing Model

SA Power Networks is comfortable with the Standardised Metering Pricing Model providing price caps and metering exit fee functionality within the same model, noting that the model contains functionality



to hide the metering exit fee or price cap worksheets where they are not relevant. Hiding worksheets that are not relevant to the individual DNSP is preferable to minimise confusion for stakeholders.

In reviewing the pricing model, SA Power Networks was able to input the data from our 2020-25 Final Decision Metering PTRM into the Standardised Metering Pricing Model, with some intervention, and replicate our 2020-25 pricing outcomes. We found an error in the 'Set PO (price cap)' macro that is used in smoothing the revenue for the capital section of the Inputs|Price Cap worksheet of the model, resulting in incorrect results in the model. Once we manually set the PO X-factor in this worksheet, we were able to replicate our 2020-25 pricing outcomes.

We note that the volume (customer numbers) forecast provided by the Standardised Metering Pricing Model is an input value. Where possible, the volume forecast contained in this model should link to a metering volume forecast in the Standardised Metering Capex and Opex Model.

SA Power Networks also recommends the inclusion of a price comparison worksheet, which will provide stakeholders a comparison of proposed prices for the forthcoming regulatory period to the prices from the current regulatory control period. This will assist stakeholders in being able to quickly ascertain if there are any material changes in pricing proposed from current pricing.

We thank the AER for the opportunity to comment on a draft version of the standardised models for metering services. For further information in relation to our submission, please contact Debbie Voltz on [REDACTED] or [REDACTED].

Yours sincerely

[REDACTED]

Richard Sibly
HEAD OF REGULATION

