

27 March 2015

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

By email: [NSWACTelectricity@aer.gov.au](mailto:NSWACTelectricity@aer.gov.au)

Dear Mr Pattas

## Alternative approach to the recovery of residual metering costs

SA Power Networks appreciates the opportunity to make a submission to the AER's consultation paper: "Alternative approach to the recovery of the residual metering capital costs through an alternative control services charge", issued Friday 20 March 2015.

### Annual charges

SA Power Networks supports the AER's proposal to recover the residual capital costs of Type 5 and Type 6 meters through an annual charge. In its consultation paper the AER is proposing two annual charges applying to all Alternative Control Services (ACS) customers as follows:

- An avoidable charge reflecting the variable costs associated with regulated Type 5 and Type 6 metering services, only payable by continuing regulated meter (ACS) customers. If a customer churns to another metering provider, they will no longer pay this fee; and
- An unavoidable charge reflecting the residual costs associated with the provision of the regulated meter service, payable by both current and churned meter customers. This charge would continue until the residual Type 5 and Type 6 meters are fully depreciated.

The AER has proposed two ways to implement these charges, which differ by how the metering asset base (**MAB**) costs are recovered:

Option 1 – the whole of the MAB is recovered through the unavoidable annual charge. There is no MAB recovery through the avoidable charge.

Option 2 – only the portion of the MAB that risks becoming stranded when a customer churns is recovered through the unavoidable charge.

Both options remove the need for a lump sum exit fee to recover the residual asset costs of Type 5 and Type 6 meters.

SA Power Networks supports Option 1 as it ensures that all ACS customers contribute the same amount to the recovery of residual meter costs, minimises price distortion, reduces meter exit fees and is administratively simple. Under this option both the unavoidable and avoidable charges can be

set at the beginning of the regulatory control period (**RCP**) based on the existing MAB and forecast capex and opex, without the need to forecast churn rates or to adjust prices annually based on churn.

Option 2 is administratively more complex, requires annual escalation of prices in response to actual churn rates, and does not allocate MAB cost recovery equally across all customers.

The AER's paper does not identify any specific advantages of Option 2 that would offset these shortcomings relative to Option 1.

#### Description of charges

SA Power Networks suggests, however, that it may be misleading to describe the avoidable charge, as the AER has done on page 4 of its paper, as incorporating "the ongoing costs associated with the regulated metering base". The term "ongoing" could confuse customers and other stakeholders, given it is the intention that this charge would cease on churn. Also, the use of "regulated metering base" implies that only asset costs are relevant to the avoidable charge, whereas asset costs are proposed to be recovered through the unavoidable charge. SA Power Networks recommends that the relevant costs be described as "the variable costs associated with providing regulated meter services", which are likely to comprise the meter reading, maintenance, and energy data services costs.

SA Power Networks also recommends the AER clarify that the unavoidable charge is intended to recover all unavoidable costs associated with the provision of the regulated meter service, which include not only stranded meter asset costs (that is, return on assets and depreciation) but also corporate overheads which are allocated to ACS meters through the AER-approved cost allocation method (**CAM**) and are therefore fixed and unavoidable for the term of the RCP.

#### Charging for new meters

On page 5 of the paper, the AER is also proposing that new and upgraded meters will be charged up front to customers, rather than through annual charges. Current practice in South Australia is that new small customer connections receiving a standard service do not pay an upfront charge for their meter. Upfront customer contributions are required for all customer-initiated meter upgrades or where the meter service requested by the customer exceeds the standard service, in which case a proportional contribution is required. We propose that these charging arrangements should be retained until full metering contestability commences.

Any change that requires new customers to pay up front for their meter would impose a significant new upfront charge on these customers without achieving any material reduction in the unavoidable component of the annual metering charge.

SA Power Networks suggests a change to current practice is not warranted for the period up to the commencement of contestability (currently proposed as 1 July 2017 by the Australian Energy Market Commission).



ACS customers to whom the unavoidable charge applies

SA Power Networks proposes that the unavoidable charge would be levied from the start of the RCP to the following ACS customers:

- All existing small customers who, as at the commencement of the RCP, have a regulated meter; and
- New small customers who connect to the network after the commencement of the RCP that are provided with a regulated meter (eg prior to commencement of full metering contestability). These meters will be added to the MAB.

Recovery of taxation costs

In reference to 'tax' in the Option diagrams shown on page 5 of the consultation paper, SA Power Networks proposes that tax should be included in the unavoidable charge. The tax cost reflected in the total annual revenue requirement under the building block post tax revenue model is wholly attributable to fixed capex costs.

Meter transfer and administration

On page 7 of the consultation paper, the AER is proposing to classify the following two ACS services:

- Types 5 and 6 meter transfer service, comprising the services required to complete a meter transfer excluding the administration tasks associated with churn; and
- An administration service associated with a meter transfer.

We note there will be some transaction costs to receive and dispose of residual meters as well as update records and an appropriate allowance for this could be included in the unavoidable component of the metering charge. This would maintain an administratively simple approach.

I trust these comments are useful and look forward to working further with the AER on this important issue.

Yours sincerely

  
Sean Kelly  
**General Manager Corporate Strategy**

