

26 August 2010

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Pattas,

**RE: AER DRAFT DECISION ON DISTRIBUTION NETWORK TARIFFS
FOR 2011-15**

The Victorian Employers' Chamber of Commerce and Industry (VECCI) submitted a substantial submission to the AER in February 2010 addressing the implications of Victorian DNSP Regulatory Proposals.

In our earlier submission we raised a number of concerns of particular relevant to Victorian small businesses. While VECCI is grateful that the AER in its Draft Decision appears to have regard to the points raised by VECCI, we continue to have concerns on certain aspects of the Draft Decision, especially regarding the:

- impact of electricity price rises on small businesses;
- role and potential impact of smart metering; and
- limited capacity of small businesses to respond to complex pricing options.

VECCI supports the role that effective regulation has to play and welcomes the opportunity to lodge this submission on behalf of small business customers of the Victorian electricity distribution network businesses and to emphasise a number of aspects in relation to small business customers that should be taking into account with regard to the DNSP responses to the AER's Draft Decision.

If you have any inquiries in the interim, please contact VECCI's Senior Policy Adviser Bridget Ryan, on telephone 8662 5225.

Yours sincerely



Wayne Kayler-Thomson
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**SUBMISSION TO AER DRAFT DECISION ON
VICTORIAN DISTRIBUTION NETWORK
TARIFFS FOR 2011-15**

26 August 2010



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Disclaimer

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The views expressed in this document do not necessarily reflect the views of the Consumer Advocacy Panel or the Australian Energy Market Commission.

Acknowledgement

VECCI would like to take this opportunity to thank the Consumer Advocacy Panel for its support for VECCI's involvement in this project on behalf of small business.

Introduction

In June 2010, the Australian Energy Regulator (AER) issued its draft distribution determination to apply to Victorian electricity distribution network service providers for the period 2011-2015. The draft decision set out the AER's proposals on the regulation of the electricity distribution network services provided by Victoria's five electricity distribution networks: CitiPower, Jemena, Powercor, SP AusNet and United Energy.

As distribution charges (far more so than transmission charges) make up a significant proportion of a small business consumer's total bill, VECCI is conscious of the implications of this price review process for small business consumers.

Collaboration with other small business representative organisations

For the purposes of this submission, VECCI has sought broad input from small business representatives on the Victorian Small Business Leaders Panel and other business and industry organisations.

VECCI works closely with the Australian Chamber of Commerce and Industry (ACCI) as a matter of course and, in the context of this project, will enhance understanding and capacity on small business consumer energy advocacy through ACCI's national communication channels.

About Victorian small business

While there appears to be some diversity in the definitions of "small business"¹, the unavoidable fact is that the small business sector is a significant customer class for the electricity distribution network businesses.

As a group, the small business community is both disparate and diverse. Small business operates in every region of Australia and across virtually every sector of the economy. In aggregate, small business is the largest employer in Australia and in Victoria.

As diverse as this group is, there are some key commonalities that are relevant to this electricity distribution price review:

- small business operators generally do not have the background and expertise to monitor their electricity supply closely;
- small business management tends to be very "hands on" to manage the core day-to-day functions of the business; and
- small business management does not have time to educate itself in the nuances of electricity supply tariffs and regulatory reforms ongoing in this arena.

¹ See VECCI's previous submission for further clarification around defining small business customers for the purposes of advocacy and research.

Small business has generally not had a voice in energy regulation matters, largely due to the diversity of the constituency. In contrast to small business, big business has resources to participate directly in the price review process; domestic consumers have power through political processes. This has given rise to an anecdotal concern that historically, costs have been assigned to the small business class because they have not had a voice in the proceedings.

VECCI is pleased to be able to represent the small business community in this price review process. However, as noted above, with small businesses unlikely to be strongly aware of electricity tariffs and reforms, engaging directly with business owners on this issue is challenging.

VECCI's overall responses to the AER Draft Decision

VECCI's submission in response to the AER's Framework Paper focussed on four key aspects: the tariff (price) design and tariff arrangements; consumer awareness; the demand management innovation allowance and the distributors' assumptions in determining the Cost Allocation Methodology.

As noted in VECCI's February 2010 submission, small businesses have significant concerns regarding the potential impacts of tariffs enabled by smart metering. These include:

- communication of time of use network tariffs to small businesses, given that networks do not have direct customer relationships with small consumers;
- the availability of reliable communications channels;
- retail billing; and
- the ability of small businesses to respond to time of use pricing, and in particular critical peak pricing.

VECCI considers that overall, the AER's June 10 draft decision is consistent with protecting the long term interests of consumers. In particular the AER acknowledged VECCI's arguments against the assumed capacity for business consumers to respond to Time of Use pricing and proposed communication arrangements. The AER also accepted our view that a number of elements, which would lead to the consumer acting on the signal, are not proven to the extent assumed by Victorian distributors.

The AER acknowledged VECCI's view that business consumers as well as disadvantaged consumers may be unable to respond to price signals. In addition, VECCI's position against proposals to use SMS technology to send price signals was also identified in the AER's decision, directly quoting VECCI's position that "until cost effective mass communication protocols can be established and tested, it is not reasonable to expect customers to be able to receive [such] signals reliably".

VECCI's emphasised the potential role of consumer awareness and education campaigns and the need to review (and potentially reform) the demand

management incentive allowance were also noted in the AER draft determination.

Focus of this submission

We propose to focus on two key matters in this submission.

- The overall ability of small business to respond to rises in network prices, and manage more complex retail prices and bills. To this end, VECCI considers the Draft Decision strikes an appropriate overall balance between service and price and VECCI would be concerned if the Final Decision veered substantially away from the overall balance set out in the Draft Decision.
- Related to this point, the apparent failure of regulation and policy to ensure small business consumers do not end up paying charges for smart electricity metering without offsetting benefits in terms of reduced network charges and higher standards of network reliability. VECCI proposes that the AER should reconsider aspects of the Draft Decision with a view to reducing allowed network costs, while at the same time increasing benchmarks for network service standards, to reflect expected network operational and reliability benefits from smart metering.

VECCI comments on proposed price increases

On the whole VECCI is supportive of the approach pursued by the AER. The AER's approach strives to provide outcomes that:

- provide incentives to reveal the efficient costs of DNSP's; and
- ensure that a fair share of incremental efficiency gains is passed onto consumers.

Necessarily, this approach is sensitive to changes in the actual costs of key inputs such as labour and materials, and of capital. Reflecting on the evidence of changes in actual costs, VECCI is able to support an AER determination that results in, at most, a modest price increase. That said, in producing its Final Determination, VECCI suggests AER have regard for the following factors:

- the impact of significant price impacts on small businesses;
- the ability of small businesses to invest in demand reduction assets or practices; and
- how complexity can impact on the ability to make informed decisions.

Each of these is discussed in greater detail below.

Small business has limited ability to pass on price increases

Victoria's small businesses typically operate in a highly competitive environment. As a sector, small businesses generally have a high degree of

operational efficiency². The dynamic mix of Victorian small business plays a key role in maintaining the strength and vibrancy of the Victorian economy.

Energy expenses have not traditionally been a great concern for most of the (non agricultural) small business sector. With the exception of some manufacturing, energy costs have not featured as a significant expense. Recent energy retail price increases however, have seen these costs become a growing concern. Some small businesses have reported that energy costs are now their third highest expense after wages and rent.

The effect of the AER Draft Determination would be to see an initial price change of between -7.0 and 0.4 per cent in 2011, followed by average annual retail prices rise by between 0.1 per cent and 2.1 per cent (in nominal terms) over the period 2012-15.³ While the AER does not report the expected impact on average small business bills, indicatively, this would result in an increase in the average annual residential bill of between \$1.14 and \$21.90 (during the period 2012-15).⁴

While this increase is by itself relatively modest, it should be considered within a context of a number of recent increases in the Victorian retail electricity prices. Cumulatively, the effect of recent regulatory decisions and other reforms has led to a considerable increase in price.

Given the highly competitive nature of Victorian small business, it is difficult to see how the sector will be able to pass on further increases in energy costs. Small businesses are generally price takers. Any cost increases will most likely be absorbed by small business owners themselves. In an environment where small business profits are under downward pressure, the impact of price rises beyond those set out in the Draft Decision would be unwelcome.

The demands on small business limit responsiveness

Compared to medium and large businesses and households, overall, the small business sector is relatively unresponsive to changes in energy costs. This is due to a number of reasons. The first of which is that small businesses lack the scale of large businesses to invest in new energy saving assets. Small business owners are inherently time poor — and have few spare staffing resources available — and are consequently often unable to spare the time to learn energy saving practices.

Second, many small businesses lack the flexibility to change how customers are serviced, or how goods are produced. Whereas households can respond to price signals — by say decreasing the use of air conditioning — the operations of small businesses may be determined by customers or staff. For example, the

² Energy efficiency benchmarks are seemingly not available or not identifiable.

³ AER Draft Determination, pg. XII.

⁴ Ibid, pg. XIII.

use of lighting, air conditioning, fridges/freezers and fryers, are all necessary for customer service.

Third, the price signal is sometimes weak among small businesses. Many tenancy agreement, for example provide include utilities such as electricity and gas. For others, energy costs are considered an accepted fixed cost. There is some evidence of misguided attempts to reduce energy consumption by switching off shop lights in an attempt to minimise energy expense, while multiple fridges/freezers, cookers and fryers continue to operate.⁵

The inability for the sector to respond to price signals again implies that the sector will necessarily absorb any increases in costs. Whereas larger business and households can adjust their consumption the small business sector cannot. The annual price increases that result from DNSP proposals range from between 5.2 and 20.0 per cent in 2011 — noticeably higher than those proposed by the AER.⁶ It is possible that price increases of this magnitude could impair the viability of certain small businesses in the future.

Complexity leads to disengagement

A key finding of recent studies for the National Electricity Consumer Advocacy Panel is that the small business sector is highly disengaged from the electricity market.⁷ For the most part, this disengagement is a product of the complexity of electricity market, and the apparent opacity of pricing and billing.

Again, small business owners are typically time poor, and do not have the resources to invest in educating themselves on the alternatives available. Further complexity will only add to the sector's disengagement and amplify the problems identified above.

Recommendations on proposed price increases

- ♦ VECCI considers that overall the Draft Decision reaches an appropriate balance between the interests of small business consumers as users of electricity services and infrastructure on the one hand, and contributors to funding that system, on the other. VECCI cautions against substantial alteration to this balance in the Final Decision.

VECCI comments on smart metering

VECCI wishes to note at the outset that it is not opposed to smart metering or Advanced Metering Infrastructure (AMI). Its concern is that smart metering costs imposed on small business should not exceed the benefits. Moreover, if as is the case in Victoria, a government has given Distributors exclusive rights to deliver smart metering, there needs to be effective regulation of smart

⁵LECG, *Advocating small business concerns in energy market reforms*, Report to CAP, forthcoming.

⁶ AER Draft Determination, pg. XII.

⁷ See LECG (forthcoming) and ACIL Tasman 2010.

metering services in their entirety. These services extend to the network services that are or should be subject to economic regulation by the AER. It is also important that governments support effective communication between metering service providers (mandated to distribution networks in Victoria) and consumers, under conditions where small consumers do not have direct commercial relationships with networks, or metering service providers.

VECCI notes that in the Final Determination of October 2009, regarding cost recovery for 2009-11 AMI budget and charges applications, the AER approved a series of budgeted charges to apply to smart metering for the relevant period. These charges ranged from \$69.21 to \$134.63 per annum in 2010 and increased for 2011. Further, provided approved budgeted charges meet certain tests of prudence and efficiency, as set out in relevant Victorian government regulations, Victorian distributors could obtain full recovery of costs up to 120% of relevant budgeted allowances.⁸ In its AMI decision:

The AER notes that the Victorian Government expects the following benefits to result from the net increase in metering charges:

- *introduction of cost reflective time of use tariffs, resulting in more efficient network utilisation and potential deferral of network augmentations*
- *operational cost savings for the DNSPs arising from remote meter reading and connection and disconnection of customers' supplies*
- *more efficient outage detection and rectification*
- *improved accuracy of customer billing.*

Moreover, the AER has also stated that:

As the AMI rollout progresses, the AER will review the level of, and trends in, DNSPs' reported actual metering opex. In particular the AER will have regard to DNSPs' future and on-going opex which should reflect the anticipated cost savings from the AMI rollout. In addition, the AER will consider how AMI affects the DNSPs' proposed network augmentation plans in making future distribution determinations, such as through improved price signals and associated reductions in peak demand. The AER will be mindful of these expected operational cost savings and other positive impacts on network service delivery in the future, and will aim to ensure that these benefits are reflected in future electricity tariffs.⁹

The smart metering rollout is due to be completed by the end of 2013. VECCI notes this is some 18 months or so before the end of the price control period, to which the present Draft Decision applies. It would therefore appear reasonable for benefits to begin to emerge that are broadly commensurate with the incremental increase in AMI prices imposed on small business and other consumers in the AER's October 2009 decision. VECCI is, however, unable to identify in the Draft Decision network savings or benefits commensurate with

⁸ See AER AMI decision page viii

⁹ Ibid page viii and ix.

the increase in metering charges previously approved. VECCI would therefore like to comment on each of the expected smart metering benefits as they relate to the economic regulation of Distribution Network services.

Demand response and smart metering

VECCI notes that in its Draft Decision the AER has been cautious around demand response aspects of smart metering.

Given the uncertainty surrounding all of the factors that make up AMI and TOU tariff impacts (that is, the Victorian Government's moratorium, the ability to send price signals, potential compensation to customers, the phasing in of TOU and other complexities), the AER considers it reasonable to assume that there will be no material impact on maximum demand and energy consumption over the forthcoming regulatory control period.¹⁰

This view is in response to expert analysis of the evidence base for demand response to network price signals. It also appears to be in recognition of some of the points made in VECCI's previous submission that Distributor proposals about potential demand response savings depend on a series of assumptions or assertions with little supporting evidence. A further consideration has been the decision by the Victorian government to suspend the introduction of time of use electricity prices.

While VECCI is comfortable with the overall outcome reached in the Draft Decision on this matter, VECCI is concerned that it highlights a broader set of issues around government policy and economic regulation of smart metering. VECCI would like to suggest to the AER that it reconsider aspects of its Draft Decision with a view to ensuring that potential network benefits from AMI are in fact achieved in the interests of consumers, including small business consumers.

In VECCI's view, if an important class of potential smart metering benefits — better network utilisation, deferred augmentation and hence reduced Capital Expenditure — is unlikely to be achieved as a result of the implementation of smart metering by network businesses, then VECCI queries whether smart metering expenditure of up to 120% of approved budgets can be prudent. In VECCI's view, if such expenditure is not in the long term interests of consumers, there would be a need for some sort of remedial regulatory action. VECCI would like to suggest the AER consider such remedial measures in its Final Decision.

Recommendation on treatment of network demand response benefits from smart metering

- ♦ VECCI invites the AER to consider regulatory options, including via its Final Decision, to protect consumers' long term interests under conditions where previously approved AMI expenditure now appears unlikely to generate

¹⁰ See AER Draft Decision page 148.

sufficient offsetting benefits for consumers, including via improvements in network asset utilisation and deferrals in network augmentation.

Demand response benefits from smart metering

VECCI understands from analysis undertaken for MCE that network-related demand response benefits actually represent a relatively modest portion of AMI benefits and that operational cost savings for networks represent a more significant class of AMI benefits. We understand such benefits include:

- Avoided meter replacement and automated meter reading;
- reductions in other network operating expenditure due to improved network status information enabled by AMI;
- automated special meter reading (such as final meter reads);
- remote connection and disconnection; and
- remote energisation and de-energisation of premises.

In this regard, VECCI is somewhat surprised that the AER in its Draft Decision is adopting a relatively light handed approach to economic regulation of the majority of these services. In the Draft Decision, these services are deemed to be 'alternate control services' or otherwise *excluded* from direct control. In line with Part D of Chapter 6 of the National Electricity Rules, this may be based on the expectation that AMI services are potentially contestable and hence 'light handed' regulation is appropriate.

VECCI queries whether such an approach is consistent with the status of AMI under a derogation from the National Electricity Rules approved by the Australian Energy Market Commission (AEMC), in response to a request from the Government of Victoria – see box below. On the face of it, there is a contradiction between regulating the budgeted cost of AMI on the one hand, but not regulating charges for services enabled by regulated AMI expenditures on the other.

Accordingly, VECCI suggests that the AER reconsider the status of AMI-related services from a regulatory perspective. In this respect, VECCI suggests a key objective in considering the regulatory status of AMI-enabled services would be to ensure that network operational benefits are achieved to a level that is commensurate with approved budgeted AMI expenditure.

Unique aspect of economic regulation of smart metering in Victoria

Under Chapter 7 of the National Electricity Rules (version 38), metering that is capable of being read remotely is currently a contestable activity as it is deemed a Type 1-4 metering installation. Under section 7.2.2, except under conditions where there are operational difficulties (see section 7.3.4 (f)), electricity distribution networks may offer remote metering services only where they have been appointed by the Responsible Person. The Responsible Person is in turn appointed by the Financially Responsible Market Participant (retailer) that has

been selected in a contestable retail market by the end-consumer for each National Metering Identifier (NMI).

In early 2009, the Australian Energy Market Commission (AEMC) acceded to a request by the Victorian government to derogate from the NER. The contestability provisions in Chapter 7 were suspended so that remote metering services in Victoria would be supplied exclusively by distributors for a designated period.

'The [AEMC] was of the view that the Draft Rule (reflective of the Government's proposal) meets the NEO in that it provides for a certain, predictable and accelerated rollout of AMI, thereby meeting the Victorian Government's policy. An accelerated rollout of AMI would enable a number of efficiency benefits to be realised. These benefits would not be available to the same extent and as rapidly under a retailer mandated rollout of AMI.'

Moreover pursuant to Victorian regulations under the Electricity Industry Act (Vic) 2000, following the designated period, Victorian distributors would be guaranteed recovery of the remaining designated value of metering assets via an exit charge applicable to any replacement metering service provider

This arrangement means that in Victoria, small businesses have no option under the derogation from the National Electricity Rules but to pay for smart metering services supplied exclusively by Victorian distributors under relevant Government orders. It is important to note that, as a result of the derogation, these services are not contestable in Victoria, as they are elsewhere in Australia.¹¹

Recommendations on treatment of network operational benefits from smart metering

- ♦ VECCI suggests the AER reconsider the status of AMI related services from a regulatory perspective, in order to ensure that network operational benefits are achieved to a level that is commensurate with approved budgeted AMI expenditure, and in line with the fact Victoria has derogated from metering contestability provisions in the NER.

Outage detection and rectification

A further important set of potential AMI-related benefits mentioned in the AER's October 2009 Final Decision is more efficient outage detection and rectification. In this regard, VECCI would like to share some of the results of original qualitative research that was conducted in Victoria with the assistance of

¹¹ VECCI notes there are currently proposals to change the NER to remove contestability being developed by the National Stakeholder Steering Committee but these have yet to be implemented.

funding provided by the National Electricity Consumer Advocacy Panel.¹² While limited in extent and scope, this research highlighted the importance reliable electricity services for many small businesses.

The report found that outages of even limited duration may have a significant adverse impact for small business operations, revenue and profits. Electricity was considered a vital input, necessary to conduct daily activities, and a few hours of non-supply could limit a business' ability to:

- service and communicate with customers;
- complete financial transactions — particularly those relying on EFTPOS and credit card facilities;
- produce and manufacture goods — including professional services;
- attract customers; and
- access employees.

Further, it was also noted that supply failure was not just a threat to sales, but also to stock. Businesses that rely on commercial fridges and freezers to store frozen foods are liable for that stock in the event of a power failure. (Electricity retailers/networks may be not required to compensate businesses in the event of planned or unplanned outages.) Stakeholders indicated that most small businesses do not insure against a power failure occurring because of the high costs involved.

Unfortunate timing of supply interruptions was also a concern. For some small businesses, turnover is concentrated during specific times of the year (such as long weekends and holidays). It was indicated that a power failure during these peak periods could have detrimental effects on the business.

Power failures can also impact production equipment. In the small business sector, this is perhaps most striking in the dairy industry, where a power failure may cause prevent or delay milking, which can also have detrimental health effects for cattle.

A business may not need to be the subject of a direct power failure to be adversely affected. Power failure within the region can for example, stifle the flow of customers or affect communications. One stakeholder gave an example of how a power failure affected the Melbourne train network — and neither customers nor employees could reach businesses.

Accordingly, VECCI believes its constituency would be likely to value enhancements in outage detection and rectification highly, perhaps more highly than some other classes of consumers.

¹² LECG, Advocating small business concerns in energy market reforms, Report to CAP, forthcoming.

VECCI notes extensive discussion in the Draft Determination of Performance Standards in the context of the Service Target Performance Incentive Scheme (STPIS). Some aspects of the scheme relate to the incidence and duration of outages. The general methodology applied in the Draft Decision is to review historical data in setting appropriate performance targets and hence incentives. VECCI had expected that, consistent with the AER's AMI decision, the AER would take into account the expected improvement in network performance (reduction in the duration of outages) associated with AMI. However, it was unable to find any reference in the relevant sections of the Draft Decision.

Accordingly, VECCI would like to suggest that the AER review the proposals in relation to performance targets to ensure that they reflect the potential reductions in the duration of network outages as a result of AMI. In doing this, we would anticipate the AER would draw on analysis undertaken for both the MCE and government of Victoria on the potential network reliability benefits of AMI.

Recommendation on outage detection and rectification

- ♦ VECCI suggests that the AER review its proposals in the Draft Determination in relation to the setting of benchmarks for network performance targets to ensure these proposals reflect the expected reductions in the duration of network outages as a result of AMI.

Improvements in customer billing

As noted in VECCI's earlier submission, VECCI is concerned that at present networks have exclusive responsibility for metering but not for customer billing, and this potentially leads to a series of challenges around the communication of pricing information to and from small business consumers. In this regard, VECCI notes its understanding that in the UK deployment of smart metering is also to be legislatively mandated. Mandated AMI deployment in the UK is however, to be undertaken by retailers ("suppliers") rather than networks. The UK government arrived at a conclusion at odds with the one reached by the AEMC in 2009. Retailers will have an obligation to notify consumers of the cost of their consumption, including via dedicated in-home displays available to consumers.

VECCI also understands that, unlike in Victoria, in the UK electricity businesses will only be able to recover the cost of AMI on a commercial basis. This means competition rather than regulation will impose a brake on excessive AMI costs or tardiness in delivery of AMI benefits. This also suggests the UK is unlikely to experience a repeat of the current Victorian situation whereby consumers are on average obliged to pay for smart meters well before they are installed and delivering benefits to consumers.

VECCI recognises the decision to make AMI a network monopoly was made by a separate national electricity market rule-maker, the AEMC. VECCI would nevertheless request that the AER, as economic regulator, apply its full regulatory powers to ensure that consumers are not made worse off as a result

of smart metering. VECCI understands that such powers include the regulation of network charges over the 2011-15 price control period, as well as the subsequent AMI cost recovery decision for the period 2012-13.

VECCI understands the policy intention is that matters such as customer billing will be addressed in the forthcoming National Energy Customer Framework (NECF). Moreover, the AER will gain some non-price regulatory functions with respect to the energy retail sector. The Draft Determination is being undertaken within the aegis of the NER, rather than the NECF, and consequently retail billing is beyond the scope of the economic regulation of distribution network services.

Recommendation on customer billing

- ♦ VECCI acknowledges that retail billing is beyond the scope of the economic regulation of distribution network services.

Demand Management Incentive Scheme

VECCI notes that in Chapter 17 of the Draft Decision, there is an extensive discussion of the Demand Management Incentive Scheme (DMIS) and the Demand Management Innovation Allowance (DIMA). Significant cumulative funding is allowed for the DMIS.

As we stated in our earlier submission, we are concerned that the overall approach to demand management is disjointed. For example in Victoria, an Energy Efficiency Target (VEET) scheme is already in place for households. There is a possibility the VEET may be replaced in the event of a national scheme, but its extension to small business is being considered by the State Government and suggests that an energy efficiency scheme of some description will apply to small business over the period until 2015.

Against this background, VECCI suggests there would appear to be advantages in concentrating demand management resources and that retailers are already subject to demand management obligations under their retail licences (and in the future under the National Energy Customer Framework). VECCI notes that issues relating to peak coincident demand and wholesale market price spikes, arise throughout the electricity supply chain, and are certainly not unique to network services. If there are shortcomings with an energy efficiency target with respect to price signals for coincident peak demand, then it may be preferable to enhance the VEET scheme (or its national equivalent) rather than designing, funding and implementing a separate scheme operated by parties that are infrastructure rather than consumer focused, having no direct commercial relationships with consumers.

Given the finding in the Draft Decision that previously expected AMI benefits (including deferred capital expenditures) are now unlikely, VECCI queries whether there is scope to suspend or otherwise reapply proposed allowances for DMIS. The gains from this saving could be applied as part of a 'claw back' so that consumers are not left in a position where they are facing AMI costs that exceed AMI benefits.

Recommendation on DMIS

- ♦ VECCI recommends that the AER reconsider the merits of allowing funding for DMIS, given the possibility this is dispersing demand management efforts, and the need to move AMI outcomes to ensure that costs do not exceed benefits.

Summary of recommendations

We propose that the AER consider our major recommendations in this submission in the development of its Final Decision:

Recommendations on proposed price increases

- ♦ VECCI considers that overall the Draft Decision reaches an appropriate balance between the interests of small business consumers as users of electricity services and infrastructure on the one hand, and contributors to funding that system on the other. VECCI cautions against substantial alteration to this balance in the Final Decision.

Recommendation on treatment of network demand response benefits from smart metering

- ♦ VECCI invites the AER to consider regulatory options, including via its Final Decision, to protect consumers' long term interests under conditions where previously approved AMI expenditure is unlikely to generate sufficient offsetting benefits for consumers, including via improvements in network asset utilisation and deferrals in network augmentation.

Recommendations on treatment of network operational benefits from smart metering

- ♦ VECCI suggests the AER reconsider the status of AMI related services from a regulatory perspective, in order to ensure that network operational benefits are achieved to a level that is commensurate with approved budgeted AMI expenditure, and in line with the fact Victoria has derogated from metering contestability provisions in the NER.

Recommendation on outage detection and rectification

- ♦ VECCI suggests that the AER review its proposals in the Draft Determination in relation to the setting of benchmarks for network performance targets to ensure these proposals reflect the expected reductions in the duration of network outages as a result of AMI.

Recommendation on customer billing

- ♦ VECCI acknowledges that retail billing is beyond the scope of the economic regulation of distribution network services.

Recommendation on DMIS

- ♦ VECCI recommends that the AER reconsider the merits of allowing funding for DMIS, given the possibility this is dispersing demand management efforts, and the need to move AMI outcomes to ensure that costs do not exceed benefits.