



**ADVANCED METERING INFRASTRUCTURE  
REVISED CHARGES APPLICATION 2011**

**31 August 2010**

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## **1. Executive summary**

CitiPower is committed to implementing the Victorian Government's Advanced Metering Infrastructure (AMI) policy. Under the AMI program, existing type 5 and 6 accumulation meters of customers consuming less than 160MWh per annum will be replaced with remotely read interval meters. These meters will enable half-hourly consumption measurement and recording, compared to monthly or quarterly meter reading currently available. Remotely read interval meters are designed to allow consumers to better manage their energy use by providing improved price signals and time of use consumption information.

This application sets out revised charges for regulated AMI services for the year commencing 1 January 2011 (**Revised Charges Application**) and is made pursuant to clause 5G.1 of the Order in Council originally gazetted on 28 August 2007 as amended on 12 November 2007, 25 November 2008 and 2 April 2009 under sections 15A and 46D of the *Electricity Industry Act 2000* (Vic) (**Revised OIC**). AMI charges are designed to recover actual expenditure that is incurred in response to the Victorian Government's decision to mandate the rollout of AMI to all customers consuming less than 160MWh per annum.

CitiPower detailed its operating and maintenance and capital expenditure for the period 2009-11 in its *Initial Budget Application* (**Budget Application**) made in accordance with clause 5A.1(a) of the Revised OIC. The Budget Application was submitted to the Australian Energy Regulator (AER) on 27 February 2009. The AER detailed its assessment of the *Budget Application in the Final determination Victorian advanced metering infrastructure review 2009-11 AMI budget and charges applications October 2009* (**Final Determination**). For the purposes of this Revised Charges Application, CitiPower has used the expenditure forecasts for 2010 and 2011 consistent with the Final Determination.

The table below summarises the proposed charges for 2011.

<b>Real 2010</b>	<b>Metering charges (\$ per NMI p.a.)</b>
<b>Single phase</b>	91.380
<b>Three phase direct connected</b>	119.440
<b>Three phase CT connected</b>	150.850

Table 1: Proposed GST exclusive metering charges for 2011 (\$ per NMI p.a.)

## **2. Introduction**

### **2.1 Background**

#### **2.1.1 AMI project**

CitiPower is committed to implementing the Victorian Government's AMI policy. Under the AMI program, some 2.9 million new remotely read interval meters will be installed across Victoria by the end of 2013. These meters enable half-hourly consumption measurement and recording, compared to monthly or quarterly meter reading currently available under type 5 and 6 meters. The minimum functionality requirements of AMI meters have been prescribed by the Victorian Government in the *Minimum AMI State-wide Functionality Specification (Victoria) Release 1.1*.

The Victorian Government's overall objective in mandating the AMI rollout is to allow Victorian consumers to better manage their energy use by providing improved price signals and more detailed time of use consumption information.

#### **2.1.2 Regulatory framework**

The legislative basis for the AMI rollout was established in August 2006 through amendments to the *Electricity Industry Act 2000* (Vic). These amendments also provided powers for the Victorian Government to make Orders in Council.

The Revised OIC establishes the framework for setting prices for regulated metering services. The Revised OIC comprises:

- the Order in Council published on 28 August 2007; and
- the amending Orders in Council published on 12 November 2007, 25 November 2008 and 2 April 2009,

made under sections 15A and 46D of the *Electricity Industry Act 2000* (Vic).

The Revised OIC provides that the AER<sup>1</sup> is responsible for ensuring that the metering service charges of each Victorian distributor allow for recovery of actual expenditure that is within '*scope*' and is prudent. For CitiPower, an activity is within '*scope*' if it is within scope of the activities set out in the notice published pursuant to clause 14B.1 of the Revised OIC on 22 January 2009 (Victoria Government Gazette G4) (**Scope Notice**).

The AER's Final Decision *Framework and approach paper – Advanced metering infrastructure review 2009-11 (Framework and Approach)* sets out how it will review and make determinations in relation to each distributor's budget and charges applications with reference to the Revised OIC.

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<sup>1</sup> From 1 January 2009, the Essential Services Commission's economic regulatory functions and powers were transferred to the AER (see s23 of the *National Electricity (Victoria) Act 2005* (Vic)). This includes responsibility for administering the AMI cost recovery framework established by the Revised OIC. Thus, the references to 'Commission' in the Revised OIC are to be read as references to 'AER'.

### **2.1.3 Budget and charges applications**

As noted, AMI charges are intended to recover actual expenditure that is incurred in response to the Victorian Government's decision to mandate the rollout of AMI to all customers consuming less than 160MWh per annum.

On 27 February 2009 CitiPower submitted its Budget Application for the initial AMI budget period (2009-11) in accordance with clause 5A.1(a) of the Revised OIC. The Budget Application set out CitiPower's total expenditure for regulated AMI services for each year of the initial AMI budget period. The AER released its Final Determination with respect to the Budget Application in October 2009. The expenditure allowances permissible under that Final Determination form the basis of this Revised Charges Application.

This Revised Charges Application, which sets out CitiPower's proposed AMI metering service charges for the year commencing 1 January 2011, is made pursuant to clause 5G of the Revised OIC, which requires each Victorian DNSP to submit their revised charges applications by no later than 31 August for charges commencing the following year.

### **2.1.4 Revised charges determinations**

In making a determination of revised charges, the AER must determine charges in accordance with clauses 4 and 5I of the Revised OIC.

Clause 4.1(o) of the Revised OIC provides that AMI charges shall be designed so that, for the period from 1 January 2009 up to and including the year for which charges are being determined, the net present value of the total costs incurred by the distributor for Regulated Services<sup>2</sup> is equal to the net present value of the total revenue earned by the distributor from the Regulated Services in that same period where:

- costs in any year are the building block costs determined in accordance with clause 4.1(b) to (j); and
- revenue in any year is determined in accordance with clauses 4.1(k) to (m).

Clause 4.1(c) provides that building block costs shall be based on actual expenditure of a distributor or if actual expenditure is not available the distributor's most recent forecast expenditure. Clause 5I.2 provides that, in determining the building blocks for its 2011 revised charges determination, the AER must:

- include actual capital expenditure and actual maintenance and operating expenditure for 2009 where that expenditure:
  - is certified in an audit report under clause 5H.2;
  - is for activities within scope at the time of commitment to or incurring of that expenditure; and
  - is up to 120% of the approved budget for that year; and
- include the expenditure determined pursuant to clause 5D.4.

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<sup>2</sup> 'Regulated Services' is defined in clause 2.1 of the Revised OIC.

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Clause 5I.3 provides that the actual expenditure included in the Revised Charges Application is for activities within scope if it is supported by an external auditors report, prepared and signed by that auditor, certifying that:

- the expenditure incurred is for activities within scope at the time of commitment to or incurring of that expenditure; and
- the expenditure incurred has been incurred in the amount claimed.

The note to clause 5I.3 of the Revised OIC confirms that an auditor report provided in accordance with clause 5I.3 is conclusive as to whether expenditure is for activities that are within scope.

### **3. Purpose and structure**

The purpose of this Revised Charges Application is to:

- detail the charges in respect of AMI regulated services for 2011. These charges are derived based on expenditure set out in the Final Determination and reported 2009 actual expenditure for the activities within 'scope' as defined in the Scope Notice; and
- give effect to and be consistent with:
  - clauses 4, 5, 5G and 5H of the Revised OIC; and
  - the AER's Framework and Approach.

CitiPower confirms that it has complied with the relevant requirements of the Revised OIC and the AER's Framework and Approach in preparing this Revised Charges Application.

The remainder of this Revised Charges Application is structured as follows:

- section 4 sets out the period to which this Revised Charges Application relates, consistent with clause 5H.1(a) of the Revised OIC;
- section 5 sets out actual total maintenance and operating and capital expenditure in 2009, consistent with the requirement of clause 5H.1(b)(i) of the Revised OIC;
- section 6 sets out CitiPower's revenue from the provision of Regulated Services in 2009 (calculated in accordance with clause 4.1(k)) as required by clause 5H.1(b)(ii) of the Revised OIC;
- section 7 sets out updated forecasts of maintenance and operating expenditure, capital expenditure and revenue from the provision of Regulated Services (calculated in accordance with clause 4.1(k)) for 2010 and 2011 in accordance with clause 5H.1(c) of the Revised OIC; and
- section 8 which identifies the information and documents on which CitiPower has relied.

Attachment 1 contains an audit report prepared and signed by an external auditor certifying that the actual expenditure incurred is for activities within scope and that the actual expenditure incurred has been incurred in the amount claimed as required under clause 5H.2 of the Revised OIC. As the audit report relates to the year commencing 1 January 2009, CitiPower confirms it meets the requirements of clause 5I.3 of the Revised OIC.

Importantly, the remainder of this Revised Charges Application should be read in conjunction with CitiPower's completed Revised Charges Application Template (issued by the AER on 11 June 2010), provided to the AER pursuant to clause 5.4(b) of the Revised OIC.

#### **4. Period over which charges apply**

CitiPower confirms, consistent with the requirements of clause 5H.1(a) of the Revised OIC, that the charges set out in this Revised Charges Application relate to the period 1 January 2011 to 31 December 2011.

#### **5. Actual expenditure 2009**

CitiPower's actual operating and capital expenditure for the 2009 calendar year is set out in Table 2 below, consistent with the requirements of clause 5H.1(b)(i) of the Revised OIC. The 2009 actual expenditure has been the subject of an audit report prepared and signed by an external auditor (Deloitte Touche Tohmatsu), which certifies that:

- the expenditure incurred is for activities within scope at the time of commitment to, or incurring, of that expenditure; and
- the expenditure incurred has been incurred in the amount claimed,

consistent with the requirements of clauses 5H.2 and 5I.3 of the Revised OIC.

	Forecast 2009 (\$'000 nominal)	Actual 2009 (\$'000 nominal)
<b>Capital expenditure</b>		
Accumulation meters	2,000	1,469
Manually read interval meters	647	619
AMI meters and transformers	1,292	1,194
IT	19,062	13,010
Communications	1,039	497
Other	111	-
<b>Total capital expenditure</b>	<b>24,151</b>	<b>16,789</b>
<b>Operating expenditure</b>	<b>13,249</b>	<b>12,186</b>

Table 2: 2009 actual and forecast expenditure

In accordance with the requirements under clause 5.I.3, CitiPower confirms that Deloitte was an auditor approved by the AER under the Audit Deed executed in April 2010.

#### **6. Actual revenue 2009**

CitiPower's actual revenue for the 2009 calendar year is set out in Table 3 below, consistent with the requirements of clause 5H.1(b)(ii) of the Revised OIC. CitiPower confirms that the actual revenue presented has been calculated in accordance with clause 4.1(k).



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	Forecast 2009 (\$'000 nominal)	Actual 2009 (\$'000 nominal)
Revenue	12,701	12,351

Table 3: -2009 actual and forecast revenue

### 7. Updated forecasts of expenditure and revenue

In accordance with clause 5H.1(c) of the Revised OIC, this section sets out CitiPower's forecasts of total maintenance and operating expenditure, capital expenditure and revenue from the provision of Regulated Services (calculated in accordance with clause 4.1(k)) for 2010 and 2011.

The AER is required, by clause 4.1(c) of the Revised OIC, to use these updated forecasts as a basis for determining building block costs for the purpose of setting the 2011 revised charges.

CitiPower has used the current AER approved budget costs and volumes for 2010 and 2011 as set out in the Final Determination.

	2010 (\$'000, real 2008)	2011 (\$'000, real 2008)
Gross capital expenditure	36,533	38,456
Operating expenditure	9,539	9,790

Table 4: Forecast 2010 and 2011 expenditure

The forecast quantities (or number of meter installations) in 2010 and 2011 are set out in Table 5 below.

	2010	2011
Single phase	245,890	249,326
Three phase direct connected	53,303	56,090
Three phase CT connected	2,409	2,653

Table 5: Forecast number of metering installations

Using the above forecasts for 2010 and 2011 and adjusting for 2009 true up, the forecast revenue requirement for 2010 and 2011 is as follows:

	2010 (\$'000, nominal)	2011 (\$'000, nominal)
Revenue	33,485	29,883

Table 6: Forecast 2010 and 2011 revenues

## **8. Information and documents relied upon**

In preparing this Revised Charges Application, CitiPower has relied upon the following documents:

- AER, Final Determination, Victoria advanced metering infrastructure review, 2009-11 AMI budget and charges application, October 2009; and
- CitiPower, Advanced Metering Infrastructure Budget Application 2009-11, 27 February 2009.

## **9. 2011 metering service charges**

Table 7 below summarises the proposed metering service charges for 2011.

	2011 (\$ per NMI, real 2010)	2011 (NMIs)
<b>Single phase</b>	91.380	249,326
<b>Three phase direct connected</b>	119.440	56,090
<b>Three phase CT connected</b>	150.850	2,653

Table 7: Proposed GST exclusive metering service charges (\$ per NMI p.a.)

## **10. Conclusion**

Clause 5I.1 of the Revised OIC provides that the AER must determine 2011 AMI charges in accordance with clauses 4 and 5I.

CitiPower confirms that in preparing this Revised Charges Application it has given effect to Clauses 4, 5, 5G and 5H of the Revised OIC as well as the requirements of the AER's Framework and Approach.

CitiPower submits that the AER must approve the revised charges proposed in section 9 of this Revised Charges Application because:

- CitiPower has provided an external audit report consistent with clause 5I.3 of the Revised OIC, which means that actual 2009 expenditure is to be taken by the AER as being within scope;
- the actual expenditure for 2009 is less than the AER's approved budget amount for that year; and
- the proposed charges result in the expected net present value of costs incurred being equal to the expected net present value of revenues earned.