



11 September 2009

By email: aer inquiry@aer.gov.au

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

Dear Mr Pattas

**Draft Decision - Victorian advanced metering infrastructure review, 2009-2011
AMI budget and charges applications**

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the Australian Energy Regulator's (the **AER**) Draft Decision - Victorian advanced metering infrastructure review (the **Draft Decision**).

Transparency

We acknowledge and appreciate the AER's decision to consult on the Draft Decision, which goes a long way to ensuring a transparent process. We note that the AER has endeavoured to carry out a comprehensive analysis and assessment in its review of AMI budget and charges applications, including reviewing a significant number of documents and submissions that were regarded as confidential. It is critical however, that these documents (RFP/RFT, procurement strategy documents, signed contracts, internal business case documents and presentations to AER staff) as well as further information on specific areas requested by the AER, should be made public, as the outcomes of these processes are critical to consumers.

More broadly, we would strongly encourage the AER to assess its process for submissions by distribution businesses to future reviews, to enhance the transparency of the process, including requiring uniform submissions for comparability purposes and open consultation on scope variations. Potentially the AER could develop a template for this information with a documented process to be followed. This is of particular relevance as the current review has resulted in significant variations in charges and inclusions for cost recovery across distribution

Consumer Action Law Centre
Level 7, 459 Little Collins Street
Melbourne Victoria 3000

Telephone 03 9670 5088
Facsimile 03 9629 6898

info@consumeraction.org.au
www.consumeraction.org.au

businesses. A transparent process would ensure that actual expenditure by distribution businesses can be effectively compared between businesses, and checked against the AER approved budget, allowing any costs outside of the budget to be easily and closely scrutinised.

This should also apply to the 'true up' mechanism, scheduled annually, which requires a critical review of the expenditure and revenue of the distribution businesses. A transparent process would assist consumer understanding of the 'true up' process and enhance confidence in any decision to amend or even reduce charges where relevant.

Consumer bill impacts

We have several concerns regarding the rollout of AMI on consumers, most significantly, the bill impacts of the Draft Decision.

Specifically, our concerns relate to the costs consumers are facing based on the average increase of \$53 in the first year alone. For those consumers who fall outside of the average, this infers a further significant increase on their existing meter charges. These may place consumers in a position of increased financial difficulties, especially if they already struggle with affordability issues.

Further, the majority of consumers will be paying these charges prior to receiving the meter (some up to four years), and there will be other delays before the full functionality of the meter is operational and retail Time of Use (TOU) tariffs are available. This places a further emphasis on the need to ensure costs are fair and reasonable.

To assist with consumer understanding of how these costs will affect them, the AER should recommend that distribution businesses fully and adequately communicate their rollout plan to their customer base, via their websites and directly. Information that should be publicly available includes the timeframes for meter installations, communication networks, TOU tariffs and access to full meter functionality.

The AER has recognised that metering charges are not currently provided separately on consumer energy bills. The ability for consumers to see clearly the increased meter charges is an essential component to the transparency of this process and ensuring the clean pass-through of actual and approved AER charges to consumers.

As such it is necessary that at a minimum, retailers be required to clearly explain the composition of the costs on bills to consumers. This could be done through including the meter charge as a separate line item on bills, or by providing a clear and transparent explanation of how costs are calculated on bills, for example explaining the breakdown for each component charge as a percentage of the total bill. This would ensure that consumers are able to take such costs into consideration when choosing retailers in the contestable Victorian market and will introduce further

scrutiny, through transparency, to the different distribution business metering charges.

Reasonable cost recovery

It is critical that the AER has applied careful scrutiny to capital and operating expenditure claims by distribution businesses.

We are concerned that some of the costs being included in the budgets of distribution businesses for cost recovery under this process should, in fact, be more properly characterised as "business as usual" costs. More importantly, this would mean that they may have been taken into account in previous general price determinations or would be more appropriately assessed as part of future price determinations. Such costs include meter maintenance costs, general systems implementations (for example new SAP operating systems) and ombudsman charges, as well as the development of new call centres when the business has existing call centres that could have been expanded or modified at a lesser cost. In addition, any costs relating to compliance with regulatory obligations such as the Distribution Code would not necessarily be related to the AMI rollout given they are licence obligations.

Determining what costs are in scope and prudent would include assessing whether costs are related to the AMI rollout, including whether costs for various items or services are only partially attributable to the rollout and otherwise outside the direct scope of the AMI rollout. It is unclear to what extent the AER has made these assessments in coming to its Draft Decision and we recommend that this issue be more clearly explained in the final decision.

Future distribution price reviews

We anticipate that, within the rollout period, benefits from the rollout will begin accruing to distribution businesses. These should begin to be passed through to consumers during the period covered by the next price review (commencing in March 2010). Careful scrutiny is needed to ensure that there is no "double dipping" by distribution businesses between the current cost-recovery determination process and subsequent price determinations.

As a final matter, the Victorian rollout is essentially a template for any national rollout of smart meters. As such, it is important to apply a rigorous and fair process of scrutiny to assessing the costs and benefits of the rollout as it will become a precedent for future processes relating to other jurisdictions.

We also note that there are several other issues relevant to the AMI rollout that have not been included in this process but that are critical to ensuring costs are passed through appropriately, including the robustness of the consumer protection framework to deal with a market in which smart meters are in place and the adequacy of public education campaigns about smart meters, TOU tariffs,

behavioural change and appliance choice. We recognise that such issues are outside the scope of this review, however, we encourage the AER to take these into account in this and future regulatory processes and decisions.

Should you have any questions in relation to this submission, please contact Janine Rayner on 03 9670 5088.

Yours sincerely

CONSUMER ACTION LAW CENTRE



Janine Rayner
Senior Policy Officer



Nicole Rich
Director – Policy & Campaigns