

AUSTRALIAN ENERGY REGULATOR

MINUTE

SUBJECT: Public Forum, 21 August 2009, presenting the AER's draft determination on the Victorian Advanced Metering Infrastructure (AMI) roll out

Location: AER Offices, Level 35, 360 Elizabeth Street, Melbourne

Date: 21 August 2009, 2-4pm.

Forum chair: Steve Edwell

Forum attendees: See list at Appendix A

AER speakers: Steve Edwell (SE) and Chris Pattas (CP)

Summary of Forum

A summary of the discussions that occurred is under each item.

1. Opening remarks by the Chair

Steve Edwell (SE) opened the forum, advised that slide presentation will be made available on the AER's website.

SE noted that the AER was not operating under the provisions within the National Electricity Rules (NER) in its review of the budget and charges proposed by the distribution network service providers (DNSPs). Rather, it was required to follow an Order in Council established by the Victorian Government, to assess and approve AMI expenditure.

2. Presentation by AER

SE slides focussed on the AMI budgets and the AMI charges separately.

The Order in Council did not permit the AER to undertake an efficient cost review of the DNSPs' proposed budgeted expenditure. Rather, expenditure would be assessed against the scope test and prudence tests set out in the Order in Council. For cost to be rejected, the AER had to establish that DNSPs failed these tests.

SE then proceeded to outline the AER's approach to assessing the DNSPs' initial AMI budgets 2009-11 and initial charges 2010-11 applications. The major issues with the budgets included:

- costs related to 2-element meters

- direct load control
- related party margins
- AMI communications technology
- self insurance
- equity raising costs
- customer response trials.

Regarding the charges applications, key areas reviewed were:

- regulatory accounts
- Efficiency Carryover amounts
- Weighted Average Cost of Capital.

SE explained the AER's draft determination revenue requirements and associated charges for each DNSP. He noted that the final determination will be released by the end of October 2009.

3. Questions and comments on AER presentation

Gavin Dufty (GD) of St Vincent De Paul Society asked whether the DNSPs' budgets could be put on the AER website. Both SE and CP advised that once distributors had signed contractors with their suppliers, the AER would be able to put the full budget on its website.

GD noted that the benefits of AMI accrue over a long time frame but customers are required to bear the full costs immediately. He asked whether the AER would seek to identify benefits for customers and ensure these are delivered. SE and CP advised that the AER would seek to understand DNSPs' operational savings, expected to occur over several regulatory periods, when assessing how customer charges should be adjusted in the future.

GD questioned whether the DNSPs' charges for other services, such as special meter reads, out of hours meter reading, de-energisation and re-energisation etc. would be reviewed by the AER, given DNSP's would no longer need to provide these services manually.

SE and CP noted that the roll-out was being undertaken separate to the NER. However, additional services will be reviewed by the AER when the DNSPs make their price-service applications to the AER for the upcoming 2011-15 distribution price reset.

GD questioned whether customers had to wait until future price resets to get benefits, in the form of diminished price increases. CP responded that the AER would undertake a review during the 2011-15 price reset to assess anticipated future DNSP cost savings arising from the AMI roll-out. SE added that, to the extent practicable, potential cost savings may be examined in the DNSPs' second budget period assessment.

GD noted that the DNSPs' communications solutions incorporated significant spare capacity which could be used to provide services to the benefit of other parties e.g. retailers. In this case, he asked whether the AER would seek to ensure users are refunded to the extent other parties benefited from their investment. SE noted that the functionality of the investments had been assessed by the AER as being compliant with the requirements of the Order in Council. SE also noted that the recovery of costs across different types of service may raise cost allocation issues which the AER may revisit at a later stage.

Andrew Mair (AM), from Dodo, suggested that costs associated with certain activities (e.g. de-energisation and re-energisation) would decline substantially under AMI, and that these benefits should be realised immediately.

On tariff reassignment, AM anticipated that retailers would be reasonably quick to pass on higher distribution network time-of-use tariffs to customers and that reassignment was expected in 2010. SE clarified that tariff reassignment may be delayed as it depended on supporting data processing capabilities, and that new network tariffs would require AER endorsement. Peter Clements (PC), representing Department of Primary Industries, said that the government considered that distributors would not wait until the communications systems were fully rolled out in 2012 before reassigning customers to new network tariffs. He also expected that current excluded serviced charges, such as de-energisation and special meter reads, should fall immediately.

Andrew Schille (AS), from United Energy Distribution, advised that UED would be reassigning customers to new network tariffs as soon as their IT systems are ready (from 1 January 2010) and that reassignment was not dependent on communications technology.

Allan Driver (AD) queried how the annual "true-up" of metering charges would work in practice. SE responded that DNSPs actual revenue and expenditure for each year would be compared against the budget for that year, with the variance being offset against AMI charges payable by customers in the current year. The true-up will be undertaken annually by the AER.

AD asked if there was intent to separate out the metering charge from distribution charges in a retailer's bill. CP noted that this was a Victorian Government policy issue.

PC advised there was no policy intention from the Victorian Government for metering costs to be separately shown on customers' retail bills. Graham Hamilton, from TRUenergy, noted that his organisation would, on customer request, advise the split between metering and network charges. They would not, however, be providing this on customer end use bills. GD expressed a view that there was no reason why customers should not automatically be made aware of these costs. CP noted that the AER would continue the practice of having separate asset bases – and therefore charges – for metering and distribution services.

AD noted the AER's presentation claimed that actual expenditure could be up to 120% of initial budget and asked if the AER would scrutinise this. PC responded that the AER would do so subject to the requirements of the Order in Council, being that the expenditure was within scope, is independently audited and is reflected in regulatory accounts. CP confirmed this.

AD then asked how the AER would respond to expenditure that exceeds 120% of the initial budget. CP responded by saying that the AER could allow actual expenditure to exceed 120% of the initial budget provided it was satisfied that the excess expenditure passed the Order in Council requirements.

AD further asked if documentation relevant to this assessment would be released by the AER, including audited reports. SE stated that this was the normal practice of the AER however noted that some information may be subject to confidentiality requirements. CP noted that the proposals and attached material would be made available.

Forum closed at approximately 3:55pm.

Appendix A: list of attendees

| Surname | First name | Organisation |
|----------------|-------------------|-------------------------------------|
| BATEMAN | Elaine | Department of Human Services |
| BEEMAN | Ezra | Energieia |
| BROWN | Randall | Origin Energy |
| BUCKLAND | Julie | SP AusNet |
| CALDER | David | Origin Energy |
| CLEMENTS | Peter | Department of Primary Industries |
| CORNELIUS | David | David Cornelius Consulting |
| CUTHBERTON | Bron | Department of Primary Industries |
| DRIVER | Allan | Allan Driver & Associates |
| FOONG | Deanna | Consumer Utilities Advocacy Centre |
| FOSTER | Richard | Financial & Consumer Rights Council |
| GAETAN | Jo | Essential Services Commission |
| HAMILTON | Graeme | TRUenergy |
| MAIR | Andrew | Dodo Power & Gas Ltd |
| MURASHEV | Anton | Jemena |
| PERRY | Phil | Impaq Consulting |
| RAYNER | Janine | Consumer Action Law Centre |
| RODRIGUES | Odete | Department of Human Services |
| SCHILLE | Andrew | United Energy Distribution |
| SEIPOLT | Anthony | Cadency Consulting |