

27 March 2015

Mr Chris Pattas  
General Manager  
Australian Energy Regulator  
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## **AER Consultation Paper – Alternative approach to recovery of residual metering costs**

Dear Mr Pattas,

The Energy Networks Association takes this opportunity to respond to the Australian Energy Regulator's Consultation Paper *Alternative approach to the recovery of the residual metering capital costs through an alternative control services annual charge* released on 21 March 2015.

It is important that forthcoming regulatory determinations by the AER provide for the transparent and economically efficient recovery of residual metering costs in a manner which delivers upfront certainty to electricity distribution networks with substantial existing metering assets in operation.

Given the limited consultation time available, this ENA response reflects a principles-based approach which the network sector considers should guide AER's decision-making on residual metering cost issues.

**1. The cost recovery approach must preserve certainty over the recovery of residual costs.**

This is consistent with the basis on which past investment occurred in existing metering and related assets, the regulatory framework and minimising avoidable regulatory risk; and

**2. The cost recovery approach should minimise cross-subsidies.** It is in the long-term interests of consumers that cost recovery options minimise the level of cross-subsidies between customers as this promotes both allocative economic efficiency and equitable outcomes between networks users. This is also consistent with the policy guidance provided by the COAG Energy Council in its December 2014 communique which stated that:

*"The Council supports consumers' right to take up new technologies, but recognises that this should not be on the basis of cross-subsidies from other end users."*

As a consequence of applying of these principles, of the two options presented ENA supports Option 1 as the approach that should apply to the forthcoming set of network determinations specified in the Consultation Paper. ENA's current support for Option 1 is based on the limited examination and engagement permitted in the time provided. This limited period does not permit comprehensive examination of the policy, implementation and rule interpretation issues raised in the AER's two options.

*Consideration of competition objectives*

The AER Consultation Paper indicates that it has taken consideration of the potential for lower exit fees which are funded by cross subsidies from other users to stimulate increased competition for contestable metering services. The ENA supports competition on a level playing field in contestable markets, without the distortionary effect of unnecessarily high costs or artificial subsidies borne by other users.

However, ENA's view is that there appears no current evidence, either quantitative or qualitative, that the long-term interests of consumers are best served by increasing the cross subsidies paid for by all customers in order to reduce the cost of installing new meters to some individual customers.

Nor is ENA aware of any information available to the AER on:

- the incremental impact on competition among metering providers which the cross-subsidy proposed in Option 2 would achieve; or
- the long-term benefits to all consumers of any increased competition achieved by the cross subsidy.

In the absence of such evidence, the ENA considers it appropriate that the AER adopts an approach which minimises the cross-subsidies between consumers, consistent with Option 1. This is consistent with the AER's preference for Option 1 stated in the Consultation Paper.

ENA is also of the view that careful and fuller policy and regulatory consideration needs to be given to any further AER decisions or policy measures which have the effect of obscuring the costs of individual consumer choices by transferring these costs for deferred recovery via the regulated asset base.

*Recognition of jurisdictional considerations*

It is critical that the AER recognise and accommodate the different metering circumstances across States and Territories. This is particularly the case where metering issues are the subject of bespoke jurisdictional regulatory regimes, such as apply in Victoria under AMI tariff orders and related instruments.

If you have any questions, or the ENA can be of further assistance in developing the AER's views on these important issues, please contact Garth Crawford, Executive Director, Economic Regulation on 02 6272 1555.

Yours sincerely,



**John Bradley**  
**Chief Executive Officer**