



10 October 2000

Paul Bilyk
Acting General Manager
Regulatory Affairs - Electricity
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Dear Mr Bilyk,

RE: ACCC Interim Authorisation of National Electricity Code Changes – Full Retail Competition

AGL Energy Sales and Marketing (AGL) is pleased to provide comments on the Australian Competition and Consumer Commission's (ACCCs) interim authorisation for application numbers A90739, A90740 and A90741 facilitating the introduction of Full Retail Competition (FRC)

AGL has provided support to both the Victorian FRC Project and the National Retailers Forum submissions on this matter. In addition to the matters raised in these submissions AGL provides the following comments.

AGL is concerned that Conditions Nine and Ten are impractical from both a technical and regulatory perspective. Specifically, AGL believes that:

1. the regulatory process suggested by the ACCC provides for significant uncertainty in relation to the provision of the profiling function;
2. the two tier process required to avoid the sunset date is impractical; and
3. the market, through commercial drivers, will compel the market to a metered solution;

These are discussed in further detail below.

Private sector provision of the profiling function

It is less likely that private sector parties (outside of the MSTATS process) will consider providing any of the functions required to undertake the profile functions given:

- the limited opportunity to recover the costs (less than two years if one assumes profiling commences after 2002 and ends 31 December 2004);
- that the ACCC has provided such strong indications of its opposition to the concept of profiling; and

- the ACCC has remained silent on the Data Centralisation issue.

Inappropriate process for the phasing out of profiling

AGL believes that the two tier process required to avoid the sunset date is impractical. The inclusion of a sunset date, as an attempt to apply pressure on jurisdictional regulators to complete the review, simply places the risks of failure of the process on retail market participants (including retailers and networks). The chance of failure arises given that each jurisdiction is likely to be concerned about different elements of metering vs profiling. Therefore, it is possible for such a review to produce inconclusive, unhelpful and possibly internally inconsistent conclusions.

In requiring the commissioning of a review, it is implicitly assumed that an exact outcome exists and that the price of meters in the open market can be determined. AGL is concerned that neither of these assumptions are true particularly in light of the lack of firm conclusions arising from the IES and up to five other previous reports into meter costs. In such cases driving a centralised decision is likely to result in a sub optimal outcome.

In light of the uncertainty the hard wiring of a sunset date into the National Electricity Code in addition to the review is unnecessary and places inappropriate risks on market participants that they are simply not in a position to manage.

Long term use of profiling?

AGL questions the assertion of the ACCC that customers want competition (ie. retail prices) based on the (wholesale?) price. As part of our preparations for FRC, AGL consulted with a number of consumer groups who indicated their concern at being exposed to the volatility of the wholesale market. AGL is not suggesting that increases in average wholesale prices over time (such as increases in peak prices) should not impact on the retailer price. AGL is suggesting, however, that wholesale price movements will impact indirectly on retailer prices irrespective of whether a profile or fully metered solution is adopted.

AGL does recognise that a fully metered solution will assist retailers looking to introduce complicated multi-tiered prices, or wishing to pass through pool price volatility onto customers.

AGL believes that too much attention has been paid to the allocative efficiency aspects of the, "metering vs profiling" debate and that insufficient attention has been paid to the technical (or productive) aspects of efficiency whereby output is being produced at the lowest cost. Also, intrinsic in the "metering vs profiling" debate is the effect of implementing the metering solution on consumption decisions made at the wholesale level and how this filters through to retail pricing. This effect needs to be considered, along with the costs of meters, in any review of profiling.

Nevertheless, AGL believes that commercial drivers will compel the market to a metered solution. This will happen without government or regulatory intervention at the appropriate time, i.e. when the cost of meters have fallen sufficiently to justify the investment.

AGL would welcome the opportunity to discuss these issues with you further and would appreciate meeting with you regarding this matter. In the meantime should you wish to discuss this submission in any way please do not hesitate to contact me on (03) 9201 7066.

Yours Sincerely,

MARK BOWDEN
MANAGER REGULATORY DEVELOPMENT