



7 May 2004

Mr Sebastian Roberts
General Manager
Regulatory Affairs - Electricity
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Extension of Victorian Full Retail Competition Derogations

Dear Mr Roberts

Thank you for the opportunity to comment upon the application for derogation lodged on behalf of the Victorian Minister for Energy Industries and Resources.

Origin does not support the Victorian Government's application to extend exclusivity for the provision of metering services by distribution businesses. It is our view that the benefit gained from an extension is outweighed by the detriment to the public constituted by the restriction of competition as a result of the extension.

The overriding benefit of providing choice in metering services is the competitive discipline contestability would impose on the provision of an efficient price and quality of service to retailers and customers. The Victorian Government's application cites the higher cost of special reads (\$20-\$25) relative to scheduled reads (\$13-\$21) as evidence of the economies of scale provided by distributor exclusivity. These charges for both scheduled and special reads, which are high relative to comparable industries, actually reflect inefficiencies in distribution businesses. For example, Victorian gas distribution businesses charge only \$7.70-\$9.00 for a special meter read, whilst the actual cost of providing the service is as low as \$3 in some areas. Rather than a justification for maintaining exclusivity, the high cost of special (and scheduled) reads in electricity is in fact a case for greater competition in metering services which would be facilitated by ending the derogation.

The application does not consider the benefits which retailers alone have the potential to realise through their unique ability to establish a relationship with customers across both gas and electricity. Specifically, the rapid growth of dual-fuel contracts facilitates the potential for gas and electricity meters to be read in a single visit to the household/site, thereby delivering substantial cost savings to the customer. Retention of exclusivity precludes the possibility for realising these efficiencies, entrenching the current anachronistic and costly approach of separate visits for each utility.

With regard to quality of service, exclusivity provides little incentive for better metering services to emerge. The most appropriate participant to measure the performance of the metering data service against service level requirements is the retailer, who has a financial incentive to ensure quality data is delivered in a timely fashion to support the customer's billing process.

Access to the benefits gained through innovation in metering services, facilitated through competition, should be available to all customers, not just those consuming above 160 MWh. If there is a threshold below which the benefits gained do outweigh the costs to

consumers, including the administrative complexities of retailers acting as the responsible person, this should be determined by the market and not by a jurisdiction arbitrarily setting a threshold. Allowing retailers to nominate as the responsible person ensures that, where there are material net benefits, they will be realised. Any disadvantages can be reflected in the cost of exercising this choice and weighed up by retailers and customers before making a choice.

Instead the current, ludicrous, situation exists in which multi-site contracts cannot be entered into on the basis of a single meter provider, if any of those sites fall below 160MWh. Similarly many single sites below the threshold are unable to access innovative metering services available to larger customers. If a threshold is going to be used to determine which customers receive competitive metering service arrangements, and which customers receive monopoly metering service arrangements, its rationale ought to be carefully considered (and quantified to the extent possible) before a decision is reached.

Even if significant efficiencies in metering services were not currently available to very small customers, current arrangements should not be a barrier (or disincentive) to greater efficiencies being available in the future. Improvements in metering and related technologies are likely to increase the scope for such efficiencies for all customers (analogous to what has occurred in the telecommunications market). Removing barriers to competition allows customers to exercise choice if and when the net benefits are available (which only a dynamic, unimpeded market for metering services can determine).

The current derogation was to be a “transitional arrangement” justified in the Victorian Government’s original submission “to facilitate a smooth transition to FRC.” The Essential Services Commission’s Draft Report into *The Effectiveness of FRC* has concluded that competition is effective for customers down to a consumption level of 6MWh, confirming that transitional arrangements are no longer necessary. This also highlights an error in the application whereby it is claimed that only 10% of sub-160MWh customers are on a market contract. In fact, the Commission’s draft report (page 71) confirms that 17% of customers are on a market contract, and that the annualised transfer rate is approximately 13%. The market is rapidly maturing, and if there is a case for the derogation to be extended based on economies of scale, this should be explicitly proven.

With regard to the accelerated roll-out of interval meters, Origin (together with almost all energy retailers, IPART and ESCOSA) does not support the Commission’s proposal on the grounds that it is premised on a flawed cost-benefit analysis. The benefits are untested in the Australian context, whilst the costs are significantly understated, based upon independent analysis largely ignored by the Commission. There is no evidence of market failure to justify regulatory intervention. In addition, further representations will be made to both the Commission and the Victorian Government to delay the roll-out until a trial among small customers has been conducted, whereby the proposal should not be used as justification for extending the derogation.

Conversely, greater benefits from the introduction of interval metering are likely to be captured (through the delivery of additional services delivered via meter enabled technology), if retailers are able to nominate as the responsible person. Products such as cost reflective tariffs with associated load control, communications interfaces into the home to enable better energy usage, and remote control options for enhanced performance, are all enabled by this new technology. Such offers are best provided by retailers who can combine and optimise the dynamic package of transmission,

distribution, and energy costs overlaid on the performance of the appliances and the customer environment to provide an automated total environment solution.

Distribution businesses only see static distribution and transmission costs, providing minimal services around these static prices. Retention of exclusivity will see only the most basic (cheapest) meters installed, with only a few benefits captured. Distributors will, in accordance with their five year funding arrangements, be incentivised to install the cheapest meters at a time as close as possible to the end of the 5 year funding period. An economically efficient approach would see the meters installed to those customers with the potential to realise the greatest benefits, derived from retailer-led product alternatives.

Origin is strongly opposed to the longer-term view of the Commission to replace derogations in the National Electricity Code (the Code) with an amendment to the Code that would entrench distributors' monopoly over metering services for small customers. A permanent Code change in this area implies that there will never be an efficiency case for removal of this barrier to competition, which sends a signal to meter service providers that a market cannot emerge (despite the possibility of technology improvements and greater potential gains for smaller customers). In Origin's view the onus should be on the Metrology Coordinator (or National Regulator) to justify any barriers to competition periodically and that no benefit in terms of certainty is gained by locking in inefficient barriers to competition.

The solution is to do away with exclusivity and allow retailers to be nominated as the responsible person. Unlike distributors, retailers have a direct interest in providing a metering solution which maximises customer benefit, based on the specific price and quality preferences of the customer.

Yours sincerely

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