



Level 10
60 Waymouth Street
Adelaide
South Australia 5000

Ph: (08) 84073568
Fax: (08) 84073599
Mobile: (0418) 802550
Email: Caird@bigpond.com

30 April 2004

Mr Graeme Samuel
Chairman
Australian Competition & Consumer Commission
PO Box 1199
Dixon ACT 2602

Dear Mr Samuel,

RE: ACCC required Joint Jurisdictional Review - Metrology Requirements for the National Electricity Market

Since 1997 I have provided consultancy services to existing and potential participants in the National Electricity Market (NEM) at the CEO/Executive level. My services have focused on the strategies, challenges and requirements for an effective (or an ineffective as the case may be) competitive market. As a result, I believe I have a unique insight and understanding of the key issues that influence the current lack of real competitive tariffs and service options in the NEM.

As you will be aware, the Commission "authorised" Code changes enabling the current metrology arrangements subject to the above review ("the Review") in early 2001. I believe given the limited genuine competition in NEM to date coupled with the approach taken by the jurisdictions and key market participants to the Review reveals a degree of contempt for the principles underpinning the Commission's requirement of the Review.

This view is supported by the extended time taken to finalise the Review while individual jurisdictions are progressing separate initiatives in regard to metrology which are independent of and pre-empt the Review findings. (The "authorised" Code changes required the Review to be completed by the end of 2003 - the Final Report is yet to be delivered).

Support for the continuation of the current arrangements (incorporating ad hoc jurisdictionally based variations) as is widely expected by the Review, will entrench areas of market failure and further embed undesirable barriers created by these arrangements deeper and for longer than contemplated by the authorisation.

I write to you directly because I believe that in the absence of your intervention in the metrology requirement for the NEM, the potential for a move to a nationally consistent, economically efficient and justified alternative arrangement will be lost and thereby genuine competition will be blocked.

I provide the following comments and observations in support of this position.

The Review has not adequately pursued the matters underpinning the Commission's required review. For example it has not identified, defined and/or considered the existing barriers, quantified their impact and/or the potential to avoid these. Further, it has not identified the costs or benefits of available alternative metrology arrangements and how these compare to retention of the current arrangements.

Central to the case against an alternative metrology arrangement is the cost paradigm of the new meter and associated data management infrastructure. This paradigm is based on outdated research and technologies and an unreasonable weight given to submissions from parties with conflicted interests. International experience is that proven alternatives exist at a capital cost of approximately USD \$55 per meter point – an annualised installed cost of approximately AUD \$14 (for large scale roll-out). This is materially below the assumed minimum capital cost for the meter alone of some \$600 at the time of the granting of the current "authorisation" and those assumed within the Review.

The Review process highlights the conflicting strategic, commercial and regulatory interests of the key industry players in promoting any material change to in the current arrangements. These complex interests continue to cloud the role of metrology in resolving issues in the NEM that will deliver real competition in both the Wholesale and Retail markets.

In the absence of a coordinated and consistent approach to metrology within jurisdictions and across the NEM material economies of scale will be lost in delivery of an alternative. The resulting diseconomies compound existing barriers and create additional ones. This matter is not lost on the incumbents. It is suggested that complexity and inconsistency, in regard to metrology, is used as a mechanism to retain the current monopolies and support emerging oligopolies (enabling development and exercise of cartel type behaviour).

To illustrate, a new "authorised" monopoly for the installation and ownership of the metrology infrastructure could be pursued based on the net public benefit however, this issue becomes confused with and lost in the conflicting interests of incumbent retailers and the possibility that existing metrology assets (of current jurisdictionally based monopolies) may be stranded. In some jurisdictions the parties ultimately impacted also appoint/are the jurisdictional regulators who will determine if assets will be stranded and/or if new infrastructure will be included in the regulated asset base.

The issue of competitive neutrality – or lack thereof – should not be underestimated in the metrology debate. Any reasonable analysis will show a material net public benefit from adoption of alternative metrology infrastructure and processes.

Until there is regulatory clarity and consistency on such matters new entrant retailers face no prospect of accessing key components, such as "the timely delivery of relevant data", for a competitive product offering. Only through "economically efficient" alternative metrology infrastructure and processes can differentiated wholesale energy products be developed (i.e. differentiated prices) and related innovative retail products offered to customers as the basis for competition.

The alternative metrology infrastructure and processes also provide functionality that enables innovation in how retail tariffs and service levels can be structured and managed. This represents a powerful platform for competition. In the absence of such infrastructure, consumers are not presented with product and service options upon which an informed choice – in regard to what metrology option might be best for them – can be made.

Accordingly, incumbents have a strong preference to retain the current arrangements and therefore pursue strategies to stall and obfuscate any move to alternative arrangements.

I attach for your reference submissions made to the jurisdictional review and one made to your office in regard to the involvement of AGL in the acquisition of the Loy Yang Power Generation operation.

I would welcome the opportunity to discuss the matters raised with you and present practical solutions to what is considered genuine market failure based on barriers to entry and anti-competitive behaviours associated with the current metrology procedures.

Your faithfully,

Russell Caird
Principal Consultant