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**National Electricity Code Change: Extension of Victorian Full  
Retail Competition Derogations**

AGL supports the proposal to extend the metering derogations for Victoria contained in the National Electricity Code. This means that the Local Network Service provider will continue to be the responsible person for all type 5, 6 and 7 metering installations. AGL gives this support reluctantly because it is not feasible to remove the derogations and have a smooth transition to alternative market-based metering arrangements in place by 1 July 2004. Having said that, AGL believes that there are potentially significant benefits from metering contestability. For this reason AGL believes that it would be appropriate to extend the current derogations until no later than 1 July 2005, not 31 December 2006 as proposed by the Victorian Government. This earlier date of 1 July 2005 coincides with the expiry of the South Australian derogations currently in place and would therefore facilitate convergence on future reviews and decision-making about metering arrangements.

AGL believes that once the derogations are removed there may well be significant benefits for the market. AGL notes the arguments advanced for continuing the derogations much longer but is not persuaded by these. Essentially, AGL maintains that the analogy between full retail contestability and metering contestability is strong. If it is sensible to have FRC, then it is sensible to also have metering contestability (at least for type 5 meters). AGL would support this as long as appropriate checks and balances are in place to ensure that industry and customers are not adversely impacted by the changes.

Whilst the derogation is in place, retail innovation will be stifled. There will be little incentive for retailers to introduce value-added metering products and services for customers. In other markets, such as telecommunications, innovations driven by retailers have been critical in developing strong and competitive markets. Imagine if only Telstra were allowed to sell and install fixed and mobile phones. Special deals on new phone products were the main reasons for customer switching. In the energy

market, retailers should be able to offer customers interval meters, time-of-use meters, interruptability, prepayment meters, remote control, datalogger interfaces to home computers and so on. These innovations will not readily occur whilst the derogations are in place.

AGL is concerned that if the LNSP continues to be responsible for type 5 metering then retailers and customers will have no alternative should uneconomic decisions be made by the LNSP or regulators. For example, the ill-conceived draft proposals by the ESC to "roll out" type 5 interval meters (despite the cost of hundreds of millions of dollars and a net benefit outcome that is far from robust) to retailers and customers is dependent on the derogations continuing indefinitely.

Another reason given for extending the derogations is the suggestion that meter churn will occur with contestable metering and could pose a barrier to switching. AGL notes that there are alternatives to meter churn, such as meter leasing, as is the successful practice in New Zealand. Where appropriate commercial incentives are available, market-based solutions will be forthcoming from third party players.

In summary, AGL supports metering contestability in principle. Extending the derogations for a longer period than is prudent will effectively ensure that metering contestability can in fact never be a future option. AGL is extremely concerned that the ESC will use the derogation extension to pursue their uneconomic objective of rolling out interval meters.

Yours sincerely,

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