



delivering the goods

Response to the Victorian
Government's Application for
Derogation

Overview - Main Issues

- Efficient Metering Arrangements
 - High cost to consumers of the current metering arrangements, and
 - Rationale for the 160 MWh Threshold
- Interval Meter Roll Out
- Joint Jurisdictional Review on Metrology Procedures
- Public Benefit
 - Burden of proof is on the Applicant
 - Lack of substantive analysis
- Impact on Retailers
- Recommendations

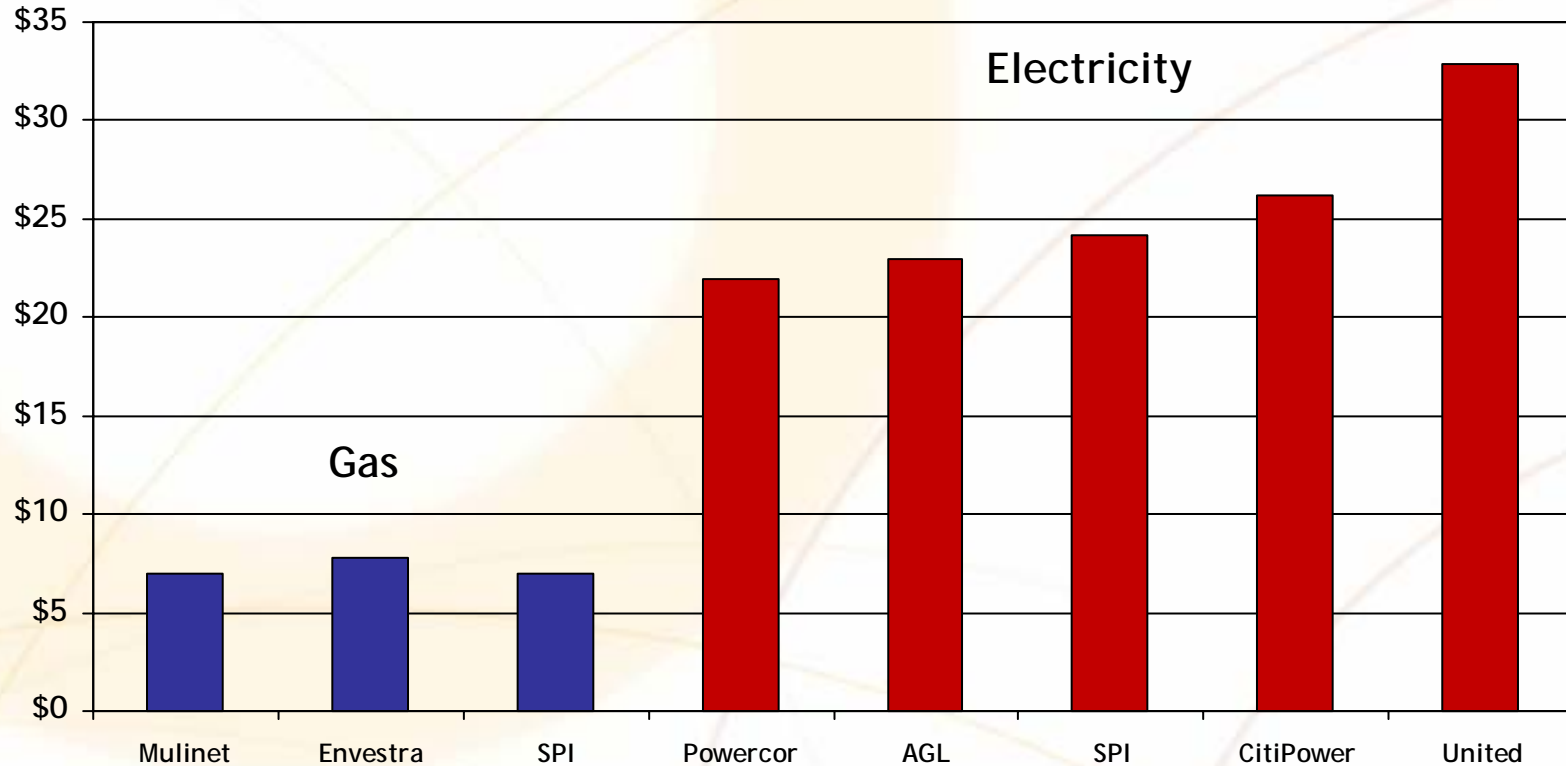
Efficiency

- Origin supports the finding of the Commission
 - *Retailers have a commercial incentive to pursue metering solutions that are efficient and that would be to the benefit of their businesses*
- Retailers will not nominate themselves as the RP unless it is efficient to do so
- UK has demonstrated that meter churn is not a barrier to competition - 51% electricity customers transferred since May 1999
- Systems and processes are in place - Retailers currently have the option to nominate as RP for large second-tier sites
- The high cost of electricity metering services has not been adequately considered

Metering Costs

- Current charges for Metering Services indicate inefficiencies in the services provided by electricity distributors
 - Significant variation in charges across businesses, beyond rural/urban
 - Significantly higher charges compared to gas
- Proposals for price increases for the 2006-10 period will exacerbate price variation and high costs
- Achieving Industry Best Practice has the potential to deliver significant benefits to consumers, through lower metering charges
- Further benefits would be expected to flow from competitive pricing
- Ending the derogation would also provide the opportunity for all utility meters (electricity, gas and water) to be read in a single site visit

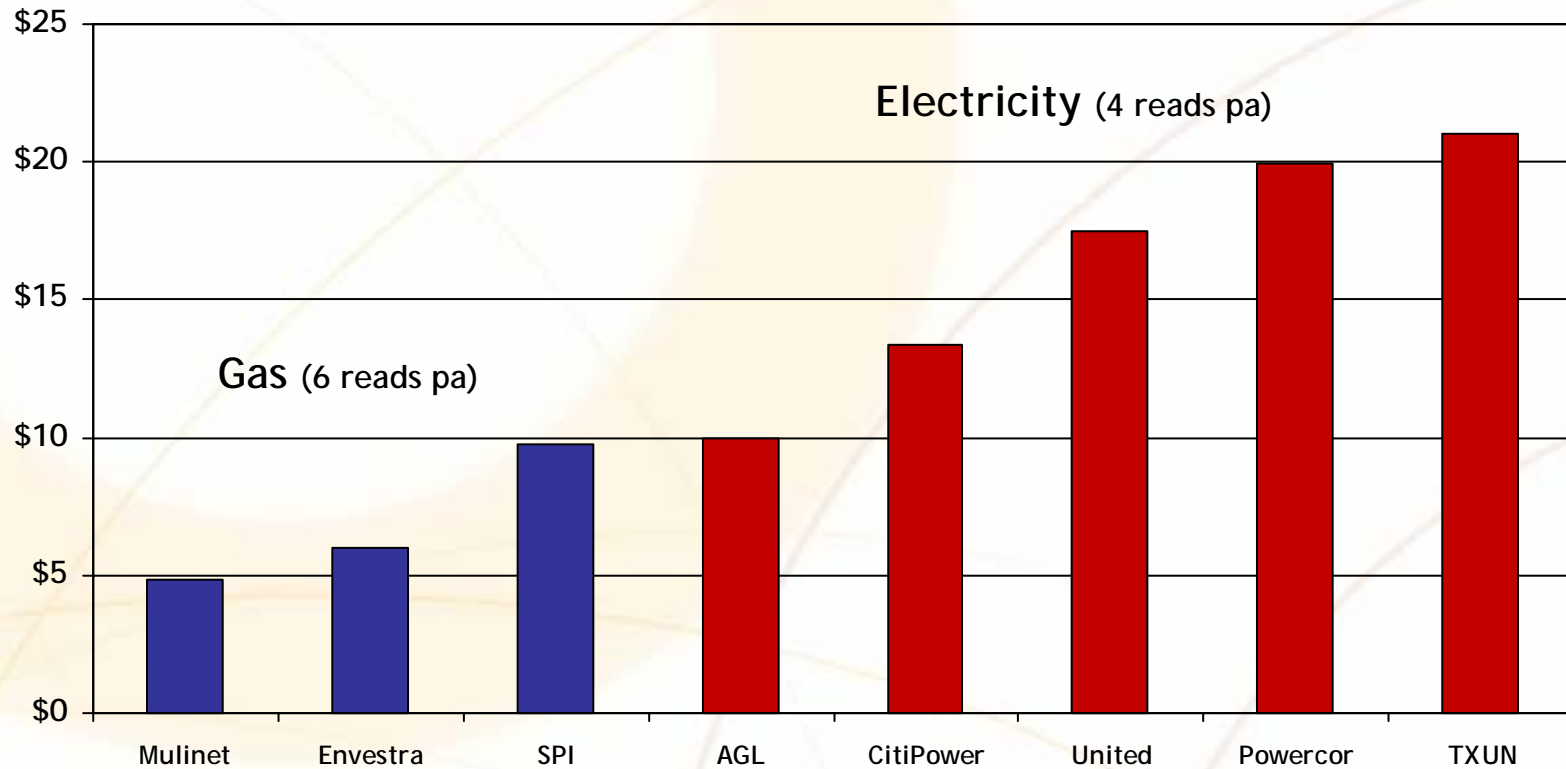
Special Meter Read Charges



Source: Electricity - Prices for Metering Excluded Services (type 5 & 6)

Gas - ESC Report into FRC Prices, Fees and Charges 30/11/04

Annual Metering Services Charges



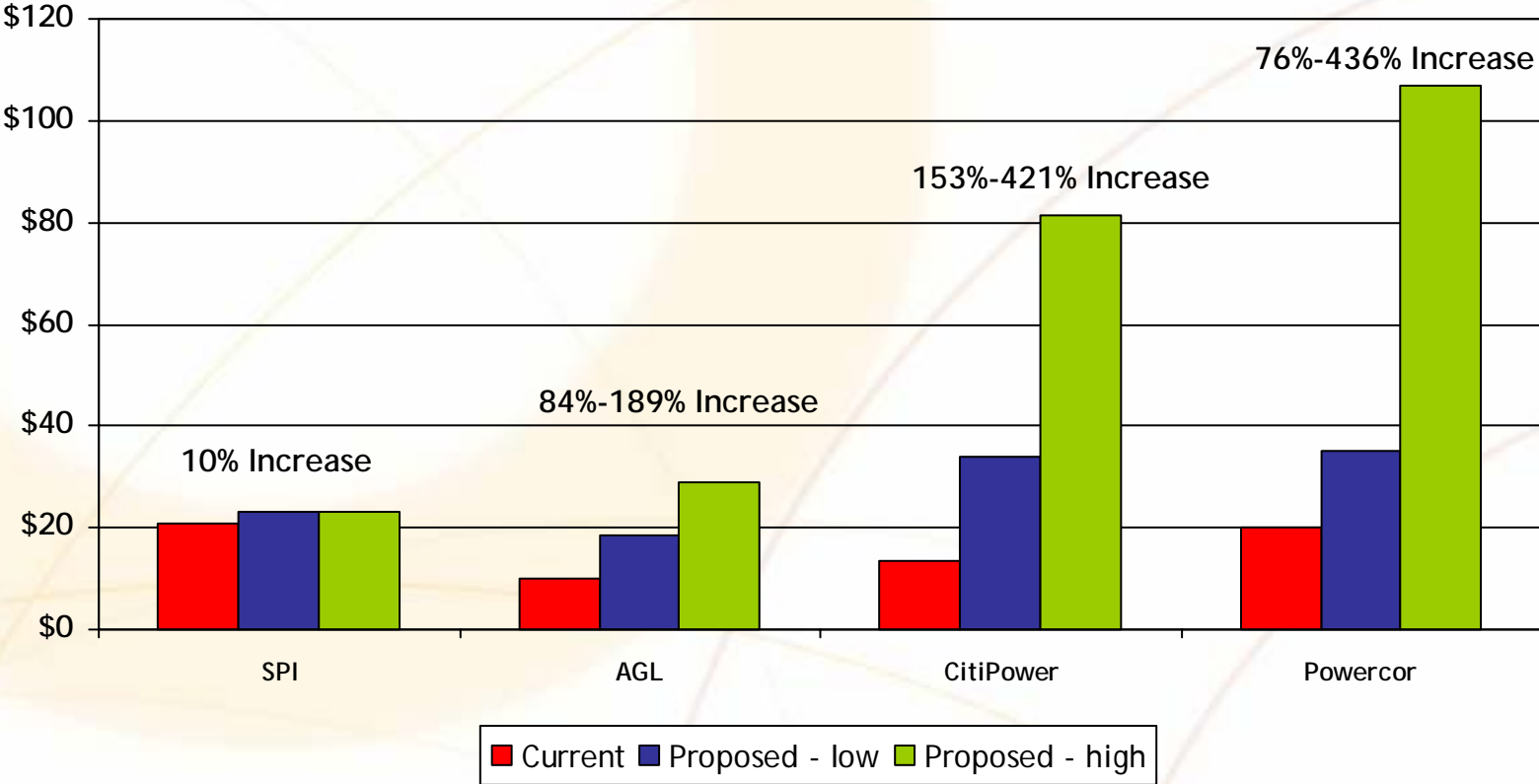
Source: Electricity - Prices for Meter Data Services (type 5 & 6)

Gas - Estimates derived from ESC Report into FRC Prices, Fees and Charges
30/8/02

Potential Annual Cost Savings in Electricity from Matching Industry Best Practice

	Electricity Industry Best Practice	Gas Industry Best Practice
Special Meter Reads	\$2 million	\$9 million
Scheduled Meter Reads	\$23 million	\$42 million
Total	\$25 million	\$51 million

Proposed Increases in Electricity Meter Services Charges



Source- 2005 DB Distribution Price Submissions

160 MWh Threshold

- 160 MWh threshold is not based on any objective rationale
 - Inefficiencies do not arise at 159 MWh
- At what level should metering services be contestable, and how should that level be determined?
- The burden of proof must fall upon the applicant to demonstrate:
 - Why the market would fail to determine an efficient threshold
 - 160MWh is the level at which market failure would arise
- This has not been demonstrated
- Origin recommends a staged approach, initially lowering the threshold to 20MWh
 - Claimed “Economy of scale” benefits are less significant at this level
 - ESC has found that effective competition is present to 20MWh
- Approximately 260,000 sites or less than 15% of those below 160MWh

Interval Meter Roll Out

- Victorian submission contends that extension of the derogation will facilitate the interval meter roll out
- The Commission has taken the rollout as a given
- Origin rejects this premise
 - Cost-benefit analysis rejected by IPART and ESCOSA
 - Benefits assume price elasticity of demand = -0.1 (ESCOSA estimate -0.025), and load reduction = 20% (ESC own analysis shows range (8-18%))
 - Price submissions from the Distribution businesses indicate a cost underestimate of \$44 million within the first 5 years (net benefit for small customers = \$12m)

Joint Jurisdictional Review of Metrology Procedures

- Driver of the JJR was to provide greater certainty in metering arrangements
- Main outcome is the proposal to provide jurisdictions with the authority to determine consumption threshold for competitive metering services
- Same issue as addressed in this and previous derogations - should the market or a regulator determine the level at which metering services are contestable?
- Deferring a decision will only provide a further 2 years of uncertainty
- There is no perfect time to make a decision - interested parties will always identify a case for delay:
 - Commencement of FRC
 - Establishment of effective competition
 - Respond to Joint Jurisdictional Review
 - National Regulatory Framework
 - Interval meter roll out

Public Benefit

- Authorisation shall be granted only if, the Commission is satisfied in all the circumstances that;
 - the proposed arrangement would result, or likely to result in a benefit to the public
 - that benefit would outweigh the detriment to the public by any lessening of competition that would result from the proposed arrangement
- The State Government must demonstrate, and the Commission must be satisfied, that continuation of metering exclusivity will deliver benefits in excess of \$50 million per annum.

Issues for Independent Retailers

- Monopoly service provider
 - No market power to negotiate lower prices or improved quality of service
 - Removes ability to manage risk of single provider of essential business input
- Metering Code, Metrology Procedures and Use of System “Agreement” with no penalty clauses
- Increased prices for metering services must be absorbed for customers on regulated tariffs - Impact across retailers varies by +/- \$10m depending upon spread of customers across distribution areas
- Potential for single visit meter reading for electricity and gas (also water) excluded
- Multi-site contracts, covering large and small sites, cannot be covered by a single metering arrangement

Summary

- Retailers have a commercial incentive to pursue efficient metering solutions
- Distributor exclusivity has driven cost inefficiencies in metering arrangements
- Potential benefits of over \$50 million from delivering industry best practice - further benefits available from competitive metering services
- Decision should not be influenced by flawed policy decision for MRIM rollout
- Providing time for a response to the JJR only postpones the decision and provides for a further 2 years of inefficiency and uncertainty
- Origin's Recommendations:
 - Staged reduction in the consumption threshold, commencing with an immediate reduction from 160MWh to 20MWh
 - Detailed cost-benefit analysis be conducted prior to any further reduction to quantify the impact upon consumers of metering exclusivity