

AGL comments on amendments to electricity code Full Retail Competition Derogation on metering

AGL is pleased to provide comments on the proposed Derogation to allow electricity distributors to be the responsible party for metering. Unless otherwise stated AGL's comments cover derogations for both the NSW and Victorian markets.

1. Predetermination conference - AGL's comments on statements made

AGL observed that the conference highlighted various views of industry and consultants on the derogation and related metering issues. Before commenting on the derogation directly, AGL would like to place on record its views on some statements made at the pre-determination conferences.

- (a) One party proposed that "retailers are not innovative in metering to date, innovation has been network driven". AGL notes firstly that retailers have had limited opportunities to be innovative (because distributors have had metering responsibility) and secondly that distributors have not shown any signs of innovation to date. For example, in NSW a number of distributors have started to install interval meters. These interval meters are basic and may not provide an opportunity to expand the functionality in the future. Finally, AGL believes that some retailers *have* shown innovation-eg AGL previously conducted prepayment time of use metering trials in SA and it is the first company (retailer) in Australia to trial critical peak pricing using interval meters.

AGL would like to see distributors looking at more innovative products like the "Hermes data logger", which is a low cost way of turning a Type 6 meter into a Type 5 by attaching a small matchbox sized device to the glass of existing meters. Alternatively, distributors could trial interval meters with communications capabilities so that retailers may choose to enable more advanced functionality in the future.

There are other alternatives to a mass rollout of interval meters for dealing with the network constraints in critical peak periods. These range from customer education and incentives (similar to the successful water management strategies) to Power factor correction for air conditioners. AGL is disappointed that these are not receiving the same attention as interval meters.

- (b) AGL notes that there are critical peak network constraints in NSW but that is not the case in Victoria. For this reason AGL appreciates that the NSW distributors have a greater interest in determining metering solutions.
- (c) AGL would like to see cost benefits of interval metering compared to ripple control of air conditioners (as currently used in Queensland).
- (d) A number of participants strongly maintained that two-way communications with type 5 meters was the only way to secure benefits. AGL agrees that two-way communications is a better solution, but it does not yet know if it is the optimum

solution. Trials undertaken by a number of companies over the next 18 months will assist in understanding this matter.

- (e) AGL is not yet assured that governments will allow price increases to be passed through to customers. Unless they do, the potential benefits of interval meters will not be realised.
- (f) AGL has found that the lack of competition in metering for small business customers has proven to be a barrier to competition in Victoria. For example AGL has requested that distributors install interval meters on specific customers but at least one distributor has been unwilling to cooperate. This applies not only to whether a meter will be installed but also to many aspects relating to the details of the arrangements between the distributor and the retailer. AGL notes the proposal by Origin Energy to lower the contestable level to around 20MWh. Under the circumstances AGL supports the intent of this proposal. An alternative may be to maintain the derogation but if Distributors do not install interval meters within 20 business days then that service becomes contestable.
- (g) Competition for small business customers in NSW is constrained but for different reasons. In the NSW market, Energy Australia is installing interval meters, even when AGL believes there is no proven benefit (greater than total market costs) for the customers. Due to the additional complexity in receiving and processing interval meter data, AGL has had to delay entering this market segment.
- (h) Some misleading comments were made regarding the net system load profile that need to be responded to. The net system load profile is simply defined as the energy entering a distribution system (measured every 30 minutes) less the interval metered load less unmetered supply (eg street lights). It is important to understand that for small customers the net system load profile is determined over a quarter, ie between meter reads. AGL wishes to make the following points:
 - (i) In NSW and South Australia the off peak hot water load is "peeled off" to calculate the net system load profile. AGL agrees that the net system load profile will never be correct for any customer. However in Victoria it is made considerably worse because there is no "peel-off" of the hot water load. AGL believes this should be introduced as a matter of urgency. This would improve the geographic spread of competition by reducing cost pressures in regional areas.
 - (ii) As increased numbers of large customers have interval meters installed then the net system load profile will become more accurate for the remaining small customers.
 - (iii) The use of a net system load profile encourages competition because a new entrant retailer will see all customers equally. If customers with poor load profiles had interval meters they are going to be less attractive (unless there are significant regulated price adjustments) to retailers. Further, with interval meters, new retailers will not know whether or not the customer has a good profile so it will be much more difficult for them to enter the market.

(iv) A number of people expressed a view that the net system load profile is inequitable because customers with air conditioners are subsidised by those without. Whilst this is true to an extent it is more to do with retailer pricing strategies than the impact of the net system load profile. Because the NSLP is determined between meter reads the retailers with air conditioning customers will receive a greater share of the costs in that period compared to retailers without air conditioned customers. In SA, AGL improved this further by introducing a higher summer tariff.

2. AGL comments on the proposed derogation

AGL reiterates its views that the derogation is but one aspect of metering arrangements and that AGL is concerned the arrangements differ from state to state.

The difficulty facing the ACCC in determining this matter is adequately weighing the pros and cons of the derogation. The pros include:

- There should be benefits of economies of scale if one party, eg the distributors has responsibility for installing interval meters.
- For residential customers with type 6 meters, meter-reading arrangements are more efficient if the same party reads all meters. Clearly Type 6 meters should be covered by the derogation.

Arguments against the derogation are:

- The number of retailers is similar to the number of distributors so retailers should be able to achieve similar scale economies as distributors. In any event if the derogation did not apply, retailers still have the option of using the distributor as the meter provider of last resort.
- Although the arguments for the derogation to cover Type 6 meters are persuasive, the arguments for greater meter type coverage are offset by some competitive and innovation constraints. AGL strongly maintains that if under the derogation Distributors are given the monopoly over installing new or more complex Type 5 metering technology, then there must be safeguards to ensure retailers receive adequate service.

Overall, it would appear widely supported that Type 6 meters should be covered by the derogation. The treatment of Type 4 and 5 meters is more contentious due to different regulator and distribution company policy. AGL has not yet been convinced that the benefits of interval meters outweigh the costs. In addition, until there is a significant price adjustment to customers on regulated prices, AGL believes interval meters will reduce the level of competition, as retailers will be able to see which customers are attractive and avoid others. Under the net system load profile arrangements, competition is facilitated equally for all customers.

Under the circumstances AGL has the following specific comments:

- There is a concern that the derogation gives distributors responsibility for metering but not accountability. For example AGL has found that the derogation is providing a barrier to competition, as at least one Victorian distributor is not installing type 5 meters on request. If the derogation is to apply there must be

some incentive for the distributor to comply with retail and customer metering requests in a timely and cooperative manner. If they do not, retailers should be allowed to be responsible for the type 5 meters themselves. Origin's suggestion for lowering the contestable limit is an alternative that may also facilitate better competition. Not only are there issues with distributors not installing meters, there are also concerns with distributors determining metering standards of operations that meet their needs, not the retailers.

- Over the next 18 months retailers and distributors are undertaking various metering trials. As a result of the information obtained during the trials retailers will be in a better position to comment on any long-term extension to the derogation.
- AGL supports the derogation continuing to apply to standard Type 6 meters. However, AGL believes the definition of a type 6 meter is too broad and that in particular the derogation should not apply to prepayment meters. Prepayment meters provide retailers with an opportunity to differentiate themselves.
- AGL notes that the Victorian Essential Services Commission has mandated a rollout of type 5 meters. Under the circumstances, it would seem that the derogation would need to apply to facilitate the implementation of this decision. If the ESC's policy changes then it may be appropriate to change the derogation. For example if the ESC decides to mandate type 4 meters then it may be necessary to have the derogation extended to include type 4. Alternatively if the ESC decides not to mandate a Type 5 rollout to small customers then perhaps the derogation should end for those customers.
- As metering arrangements are in a state of flux at the moment and there is still considerable debate on the future framework, it may be appropriate to shorten the derogation period to review these matters after the outcome of metering trials are known over the 2004/5 and 2005/6 summers.

Please contact me if you need further clarification of AGL's comments.

Yours sincerely

Robert Petersen
Acting General Manager Retail Market Development
AGL Energy Sales & Marketing