

27 January 2005

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

Dear Sebastian

RE: Victorian Full Retail Competition Derogations

SPI Networks (TXU) thanks the ACCC for the opportunity to comment on the Draft Determination regarding extension of the Victorian Full Retail Competition Derogations.

As an investor in metering this determination is of particular significance to TXU, especially considering the significant investment the Essential Services Commission (ESC) is mandating on Victorian distributors currently. TXU estimates that it will invest \$160 million in the period 2006-10.

The ESC's analysis shows a net societal benefit will arise from a significant penetration of interval meters. TXU agrees with the ESC's view that market forces are unlikely to deliver the critical mass of new meters required to deliver the benefits available. The ESC has therefore asked distributors to facilitate the roll out.

The ACCC's draft determination offers little to provide investors with any certainty that investments made under regulatory arrangements in Victoria will be secure and recovered in full.

TXU suggests that given the ACCC considers all substantive issues regarding metering competition should be revisited when code change applications are made, a decision to expand competition at this time is premature. The matter of metering



competition should be considered in totality and this decision has the potential to bias the outcome of the full review, as decisions regarding a significant area of anticipated technological change will already have been made. To reverse the Victorian derogation decision would then be potentially damaging the investment of an additional group of investors.

TXU believes that under competitive conditions, our significant scale economies would enable us to compete effectively in the market. However, the current situation of a mandated roll out will disadvantage Victorian distributors in the following ways:

- TXU has little control over the timing of the roll out, and is at significant risk of being forced to buy meters early in their development lifecycle and consequently paying a higher price for lower specification products than would be available to our competitors later;
- There is pressure to assign meters with a long economic life which increases the risk of asset stranding;
- The treatment of metering as a monopoly under a CPI-X price cap with rebalancing constraints reduces flexibility to respond to competitive forces as they arise;
- There is political and societal pressure to maintain parity in pricing between rural and urban customers. As the incumbent with averaged pricing, TXU would be disadvantaged as competitors target customers with low cost to serve.

The situation Victorian distributors face is that jurisdictional regulators wish to achieve demand side response and have mandated interval meters to facilitate this outcome, without the ability to control the critical issue of competition in the metering sector.

TXU believes the ESC's analysis justifies continuation of a monopoly provision of metering services to deliver greater societal benefits. The ACCC's draft determination puts at risk the benefits available and we believe it is a most unsatisfactory situation to have the jurisdictional regulator treating metering as a monopoly prescribed service while the regulator managing the national electricity code and competition issues appears to be moving in the opposite direction.

TXU strongly advocates that the ACCC and the Essential Services Commission work together to ensure that arrangements put in place in Victoria are ultimately acceptable to the AER and AEMC. It is critically important that distributors are not placed in a position where they have made investments under direction of the state regulator that are subsequently devalued by decisions of the AER and AEMC.



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Should you wish to discuss this matter further, please call me on 03 8628 1035.

Yours sincerely,

Peter Firth
Manager Regulation
SPI Networks

