



Department of Infrastructure

80 Collins Street
GPO Box 2797Y
Melbourne Victoria 3001
Telephone (03) 9655 6666
Facsimile (03) 9655 6752
www.doi.vic.gov.au
DX210410
Our Ref:

Ref: ESD00039

Mr Sebastian Roberts
General Manager
Regulatory Affairs – Electricity
Australian Competition and Consumer Commission
GPO Box 520J
MELBOURNE VIC 3000

Dear Mr Roberts

Draft Determination on Victorian Metering Derogations

I write to outline the Department of Infrastructure's response to the Commission's draft determination, dated 1 December 2004, to grant authorisation to the above derogation.

The Victorian Government welcomes the Commission's draft determination to authorise the proposed derogation to grant distributors exclusive responsibility for providing basic interval meter services.

One of the Victoria's key objectives for the electricity sector is the facilitation of effective competition in retail energy services. We believe that this objective is well served by the derogation.

We support the Commission's proposal that the derogation remain effective until the end of December 2006. This timing will enable consideration of the recommendations of the Joint Jurisdictional Regulators' Review of Metrology Procedures, and appropriate amendments to the National Electricity Rules, to be developed and implemented.

Current regulatory arrangements in Victoria provide an important context for granting distributors exclusive responsibility for basic meter services. Under Victoria's regulatory regime, these services are subject to effective efficiency disciplines and open access requirements.

Victoria acknowledges that innovation in metering services to households and small businesses may be hindered to a small degree under the derogation. However, we believe that there is limited scope for such innovation, and any such benefit is likely to be overwhelmed by negative impacts because:

- these services have significant economies of scale; and
- opening up responsibility for meter services to other parties will add significant commercial risks and costs to the operation of the market, and to customer transfers in particular.

Specifically competition in basic interval meter services would result in considerably more complex and costly business-to-business transactions and processes between distributors and retailers, requiring significant new system builds. It is also likely to result in inefficient meter churn, which may necessitate new regulatory treatments against potential anti-competitive behaviour by retailers.

DOI accepts that the competition may mitigate inefficient meter churn over time, but at the cost of diminished consumer confidence in competition.

The draft determination proposes to maintain competition in services for remotely-read interval meters. This aspect was the key issue in Intermoco's request for a pre-determination conference.

Victoria accepts Intermoco's assertion that significant potential benefits may accrue to the market as a whole if a roll-out of interval meters with remote communications capability were facilitated.

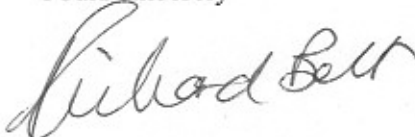
The net benefits of remote communications would need to be fully assessed before any such deployment is mandated. As Intermoco points out, the ESC's review of interval meters noted potential gains from this deployment. However, no thorough assessment of costs and benefits has yet been undertaken.

Intermoco raised the further issue whether it is appropriate to nominate a provider with exclusive responsibility for remote communication meter services in a given area or situation. It is possible that mandating remote communications would justify some degree of exclusivity in the provision of those services. This would need to be assessed as part of an evaluation of the net benefits of this policy.

Victoria, which has received recent representations on this matter, strongly encourages the establishment of a forum of electricity industry participants, particularly distributors and retailers, to consider the case for a roll-out of interval meters with remote communications capability.

Given that market interest in mandating remote communications is increasing, on the grounds that this would capture the full benefits of interval metering, it may be premature at this time to introduce competition in the reading of interval meters for small consumers. DOI would be pleased to discuss this matter with you.

Yours sincerely



Richard Bolt
Executive Director, Energy and Security

27, 1, 05