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Our Ref:

Mr Sebastian Roberts
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Australian Competition and Consumer Commission
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28 January, 2005

Dear Sebastian

NSW application for derogation on meter provision

The Public Interest Advocacy Centre (PIAC) supports the granting of the application by the NSW Government for an extension of the derogation permitting the electricity distributors to retain their exclusivity in the supply to 'small' (below 160Mwh annual consumption) customers.

We do not support the exception proposed by the Commission for remotely read type 5 meters. The case has not been made out that this will benefit consumers or lead to a higher level of innovation in metering.

It is worth making the point that the NSW Government undertook consultation on the issue of metering exclusivity with community and industry stakeholders prior to making its application for the extension of the derogation We accept that this does not in any way bind the Commission in reaching its decision. Nonetheless, all stakeholders have previously had the opportunity to air their views about the benefits of extending competition into this vital but small area of the electricity industry.

PIAC is pleased that the Commission has proposed to defer changes to metering arrangements until the implementation of the recommendations of the Joint Jurisdictional Review. However, in our view this decision represents a 'stop gap' - a commitment to the introduction of competition in metering services with only the timing to be debated.

In reaching this decision the Commission appears to have relied on assumptions (perhaps wishful thinking) about the behaviour of potential market participants - for example, in relation to meter churn and load control. This position fails to acknowledge the weight of argument against the extension of competition to the supply of meters. This elevates the provision of choice to a small number of consumers and metering suppliers above the more critical question of overall public benefit from competition in metering services.

Our formal response to the NSW Government's consultation paper in May 2003 raised the following points:

- the observation that competition in energy markets has tended not to reach down to the great majority of low-volume consumers;
- competition reform tends to involve significant 'back room' costs which are passed to consumers;
- resolving issues of meter churn and stranded assets will add complexity and cost for consumers; and
- the costs of achieving competition in metering services would be expected to eclipse any of the minor consumer benefits.

In short, there is no basis for believing that low-volume electricity consumers will realise a net gain from competition in the supply of meters. The abstract benefits of increased competition in the electricity industry cannot overtake the significant costs to consumers of ending this monopoly.

Metering technology itself will not provide benefits for consumers. Nor will a choice between whether to accept an accumulation meter or the newer (type 5) interval meter. The key factor is the range of tariffs and prices which distributors and retailers might provide to customers. As noted above, our view is that it is unlikely favourable time-of-use (ToU) tariffs will be offered widely by retailers in view of their current marketing strategies.

Accordingly, PIAC believes it is important that the Commission consider which arrangements will provide the largest tangible benefits for residential consumers rather than for prospective metering service providers. Given the relative contributions to final customer bills of metering, retail activities and distribution networks it seems clear to us that such benefits cannot be realised under arrangements which sever the connection between customer metering and the network service providers.

Reductions in network costs over the long term (mainly through the deferral or avoidance of augmentation) are likely to produce more substantial benefits than any level of competition in metering provision. Moreover, such benefits will be captured by all consumers rather than only the minority selected by individual retailers. Since this reduced capital investment will reflect better demand management and lower peak usage it is worth making the point that this also will have long term implications for the wholesale price of electricity.

Time-of-use pricing is not necessarily demand management. ToU tariffs introduced by retailers may have some incidental impact on consumption patterns. However, it should immediately be apparent that retailers will pursue rather different goals for ToU tariffs than the networks. We can only agree with the NSW network businesses who argue that ending exclusivity in meter provision will undermine their ability to pursue better demand management by smaller customers.

Importantly, the existing meter stock of the distribution businesses means that as well as having a greater incentive to pursue effective demand management these entities have the greater capacity to attempt innovation and to trial new technology and tariff structures. This reinforces the point that competition in the provision of electricity metering can only result in higher costs for consumers generally.

The proposal to exempt from the derogation type 5 meters with a remote communications capacity is a poor attempt at a regulatory compromise. It represents a 'halfway house' between a continuation of the monopoly and full competition. Again, the Commission has proceeded on the basis of assumptions about the future behaviour of prospective market participants. PIAC cannot understand why the Commission would adopt the view that retailers are more likely than distributors to opt for metering with a remote communications capacity.

Most critically, this exception ensures that consumers will face most of the costs associated with a fully competitive supply of metering without realising any tangible benefits in excess of those provided by the current arrangements.

Yours sincerely
Public Interest Advocacy Centre Ltd

Jim Wellsmore
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