

A few
words.



29 May 2014

Ms Lisa Nardi
Australian Energy Market Commission
PO Box A2449
Sydney South NSW1235

Dear Ms Nardi,

RE: Consultation Paper- Expanding competition in metering and related services in the National Electricity Market (ERC0169)

AGL Energy (AGL) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Consultation paper on the Rule change request introducing a new framework in the National Electricity Rules that provides for increased competition in metering and related services (the Rule Change Request) submitted by the COAG Energy Council (CEC, formerly the Standing Council on Energy and Resources).

AGL supports the policy direction and effort by the AEMC related to the Power of Choice review and, in particular, proposed reform #3:

*"To introduce competition in metering services and develop a framework for smart meters: establishing the regulatory framework to encourage commercial investment in smart meters and associated services to promote consumer choice."*¹

AGL also notes the CEC on their decision published in the communiqué dated 14 December 2013 which states:

*"SCER agreed to progress work on the recommendations in the AEMC Power of Choice review.... agreement that officials should prepare Rule change proposals for consideration by the AEMC addressing the following areas: Expansion of competition in metering and related services to all customers, consistent with a business-led, optional approach to adoption of more advanced metering in states where a widespread roll-out is not underway"*²

AGL's position on metering and metering service provision

AGL believes that meter provision and meter data services should be contestable. Any meter provision to a customer needs to be based on providing value to the customer, and needs to provide an incentive for the customer to engage with and support the services and benefits that smart meters enable.

AGL therefore supports the provision of smart metering under a competitive metering and services framework, (Market Led) approach, which is one of the three key reforms

¹ <http://www.aemc.gov.au/market-reviews/completed/stage-3-demand-side-participation-review-facilitating-consumer-choices-and-energy-efficiency.html>

² <https://scer.govspace.gov.au/files/2012/12/Final-SCER-Communique-14-December-2012.pdf>



proposed by the AEMC to achieve an efficient demand-supply balance in the National Electricity Market (NEM)³.

AGL's position on recommendations of the Rule Change Request

AGL broadly supports the recommendations of the Rule Change Request and more specifically the proposals to:

- Review of the Role of RP with the intent to expand metering competition in the NEM and enhance customer choice;
- Develop an agreed minimum functionality standard for smart metering which will ensure a level of interoperability;
- Unbundle of meter charges from Distribution use of system (DUOS) charges as a key enabler to metering competition;
- Establish the AER's a role in determining exit fees for accumulation and manually read interval meters where a Distribution Network's meter is replaced.

AGL however is very concerned with the proposal to introduce jurisdictional specific policies and derogations proposed in the Rule Change Request. AGL has a strong preference that any approach to smart metering is nationally consistent. Policy and regulatory uncertainty and inconsistency introduced through jurisdictional specific decisions will limit investments in smart enabled technologies creating inefficiencies and limiting innovation.

In particular, AGL is concerned that retention of the option for distribution businesses to roll out smart meters in their areas, including new and replacement or Demand Side Participation (DSP) programs will add a great deal of uncertainty to and detracts from any value proposition of a retailer contemplating Market led roll-out that delivers value to customers. Consistent with the AEMC Power of Choice, AGL prefers an open and contestable national approach to new and replacement of electricity meters. AGL believes that a contestable Market Led approach will deliver greater benefits and ensures that customers are engaged and participate on the journey.

Therefore, we request that outcomes of the consultation are consistent with a Market led smart meter approach underpinned by a nationally consistent framework.

AGL suggests that, given the broad nature of the Rule Change Request, the AEMC carefully reviews the changes proposed to ensure that the most efficient and effective mechanisms are prioritised and implemented to avoid delaying the intent of the rule Change Request, which is to expand metering competition in the NEM and enhance customer choice.

Answers to specific issues raised in the Discussion Paper are in Attachment A to this letter.

AGL welcomes the opportunity to discuss our submission in more detail. Please contact me on (03) 8633 6836.

Yours sincerely,

Stephanie Bashir
Manager Metering Policy and Development

³ <http://www.aemc.gov.au/market-reviews/completed/stage-3-demand-side-participation-review-facilitating-consumer-choices-and-energy-efficiency.html>

Attachment A

Adoption of a separate Metering Coordinator role

Questions:

What are the benefits for competition by allowing any registered and accredited party to take on the Metering Coordinator role?

Are there alternatives that are preferable to creating a separate Metering Coordinator role? For example, would it be appropriate to combine the proposed Metering Coordinator responsibilities with the existing Metering Provider role? If so, what advantages would this alternative deliver?

AGL supports the policy intent of the rule Change Request, which is to expand metering competition in the NEM and enhance customer choice. The CEC propose to achieve this by creating the Metering Coordinator (MC) role to remove metering exclusivity from the meter type that currently exists under the role of RP.

In the electricity market, the fundamental purpose of metering is the measurement of electricity flows to allow financial settlement of the market and billing of customers. AGL notes that this responsibility currently sits with the FRMP. Under the exiting arrangements, when the FRMP is the RP, the FRMP has the ability to contract this to the LNSP under the role of RP.

AGL notes that the current role of RP has three main functions:

1. Ensures that there is a metering installation at a connection point;
2. Engage relevant accredited MP and MDP to establish and maintain the metering installation;
3. Ensure the accuracy of the meter data from the installation

AGL notes that points 2 and 3 above can be transferred to the new proposed role of the Metering Coordinator however the FRMP needs to maintain the responsibility of ensuring there is a metering installation at a connection point due to their financial obligations in the Market. AGL supports the rule change request in that it maintains this in the proposal.

The existing rules do not preclude the FRMP/ RP from contracting the provision of the metering installation to a third party or a preferred MP/ MDP by the customer.

As a result, AGL believes that an alternative to creating a separate MC role would be to simply amend the existing role of RP in order to formalise the contracting of metering service functions based their commercial arrangements and product offerings to customers.

AGL believes that managing congestion and acting as the "gatekeeper" are simply an enhancement of the currently defined roles under the NER of MP and MDP roles and which are accredited roles by the Australian Market Energy Operator (AEMO).

Further, AGL believes that adding a new role in the NEM is a very complex process. All registered participants and service providers, including AEMO will be required to upgrade their systems, processes and operations to support the new role as there will be new rules, validations and objections on market transaction that will need to be managed. AGL believes that the benefits of adding a new role do not outweigh the cost that will be

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imposed on industry and ultimately borne by customers of such a role being adopted and implemented.

This approach ensures that we achieve the policy intent and objectives set out by CEC in an efficient way to minimise cost on industry and enhance metering competition in the NEM.

Accreditation and enforcement requirements

Questions:

If established, should the new Metering Coordinator role be classified as Registered Participant under the NER or should other arrangements be put in place? If so, what accreditations may be required?

AGL believes that the MC role is un-necessary and the CEC policy intent can be better achieved by examining the current RP role and its relationship with the MP and MDP.

However, if the MC is to be established then we believe that:

- The Metering Coordinator must be registered or otherwise bound by the NEL and NER.
- Existing RP experience should be recognised. FRMPs/LNSPs should not have to seek accreditations for functions they perform today and therefore should be automatically defined as MCs.
- Gatekeeper duties such as congestion and security should be divided between existing MP and MDP roles as appropriate, and an accreditation "update" should be required to cover new responsibilities.

Loss of accreditation or failure of Metering Coordinator

Questions:

*Are any specific arrangements required in the event that a Metering Coordinator fails?
Should there be any specific changes to the ROLR arrangements regarding metering?*

If the MC is created, then the NER should specify that the FRMP becomes the MC in the event of MC failure and that, where the MC role is part of a FRMP that has failed, the MC role should transfer to the Retailer of Last Resort (ROLR).

We also note that, in the event of failure of a MP/MDP, there is likely to be interest in the market in acquiring the metering assets of the failed business. A business that acquires metering assets from the failed MP/MDP will price the acquisition such that it can economically ensure continuity of metering services. As a result, there is no need for specialised regulations to protect smart metering installations in this scenario.

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Jurisdictional arrangements for prescribing Metering Coordinator exclusivity for certain metering installations

Questions:

How would the proposed jurisdictional arrangements impact on the proposed approach for competitive provision of metering and related services?

Should SCER's proposal for prescribing Metering Coordinator exclusivity be limited to certain metering types? If yes, what are the metering types that should be considered?

AGL supports a national framework based on national policies and rules. Jurisdictional differences create uncertainty and create barriers to competition and innovation. AGL believes that jurisdictional differences in this context would also have a negative impact on the customer's choice. AGL highlights the first policy principle listed in the Rule Change Request is:

"These rules apply generally across the National Electricity Market (NEM)"

AGL supports the quoted statement used to assess the Rule Change Request and we assume that this is a form of acknowledgement to the benefits derived from a nationally consistent framework and approach. AGL has a strong preference that any approach to smart metering is nationally consistent and reiterate that uncertainty and inconsistency introduced through jurisdictional specific decisions and policies will limit potential investments in smart enabled technologies by commercial business.

Furthermore, AGL does not support exclusivity in roles and responsibilities and in this case the exclusivity of the MC. We believe that this will create barriers to competition and is inconsistent with the overall policy intent of competitive metering and enhancing customer choice.

Consent arrangements

Questions

What information and consent requirements would be appropriate under the competitive model for provision of metering and related services?

Should opt-in / opt-out provisions apply where a party seeks to upgrade a consumer's metering installation to achieve business operational efficiencies that may lead to reduced costs for consumers?

Customer and community education should be focussed on the services, information and products that smart meters enables and not the smart meter technology itself. Retailers, by virtue of their existing customer relationships are in the best position to educate and inform customers as part of their product and service offerings. Consumers need to have real choices, with access to timely, useful information and meaningful incentives in order for them to change energy consumption behaviour in the way that suits them best.

Retailers must play a pivotal role in educating customers, particularly if we want to encourage customers to take up new forms of products and services. Within this broader education program, individual retailers could work with their own customer base to educate consumers. It should be left to each retailer to determine the most appropriate methods to inform their customers about the benefits and services enabled by smart meter technology under a Market Led approach.

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In the situation of a Market Led approach, the ability to effectively explain the benefits of the technology or product is key to the business model, this is in contrast to a mandated rollout. A retailer can develop collateral that educates the customer specific to the benefit they will receive and as such will ensure that messages are targeted to the needs and questions of the customer, this is far more likely to result in a successful deployment of technology.

In a scenario where a smart meter is installed on an '**opt out**' basis, there should be no additional financial impost to consumers over and above those contained in existing metering costs currently faced by consumers (within DUOS charges). However in any situation where a customer is required to pay additional costs or charges for smart metering, this should be on an '**Opt In**' basis, with informed consent being required from the customer. These events may include:

- A requirement to charge additional fees to recover metering charges (above those already provided under DUOS charges) as part of the meter replacement; or
- As part of the smart meter replacement there is a change to a customer's current retail tariff offering; or
- As part of the meter replacement the retailer wishes to offer new products or services enabled by the meter replacement.

AGL believes that competitive neutrality across the value chain is key to enhancing competition in metering and related services. AGL also believes that existing information and explicit informed consent obligations on retailer is appropriate and should apply to MCs. In addition, the MC should be bound by the Privacy Act and the National Electricity Customer Framework (NECF).

Information about metering charges

Questions

Should retailers be required to inform consumers of their metering services charges? If so, what is an appropriate means for retailers to fulfil this obligation?

AGL's view is that the retailer must be allowed to quote an overall tariff so that customers are clear on the full price that they are accepting. It is not necessary to separate metering charges as an item on an account.

In a market led smart meter commercial rollout model, the investment to provide a smart meter is borne by the commercial business. In this scenario the customer is indifferent as they are not impacted financially or being forced to pay additional charges. Introducing an obligation to provide metering charges on a retailer bill to a customer at the same time as smart metering is being rolled out commercially could result in negative perception by customers and may become a barrier to a market led rollout of smart metering.

Also in a market led environment, the metering component is only a small part of an offering or service. AGL is of the view that retailers should inform customers of the information of their product and services; this may include metering, but the decision should be left to the discretion of the retailer on the best and most appropriate mechanism tailored for customer preferences and requirements.

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Retailer and Metering Coordinator relationship

Question

Should the relationship between the retailer and the Metering Coordinator be based on a commercial arrangement? If not, what alternatives should be considered? What are considered the costs and benefits of a standard contract for this relationship?

AGL believes engagement between the retailer and MC, or the extended role of RP should, be contractual as some responsibility remains with the FRMP. This is not necessary today because the entire responsibility is either with the FRMP or the LNSP and compliance with RP obligations is monitored and enforced by the AER under the NER.

Metering Coordinator and consumer relationship

Questions:

Should residential and small business consumers be able to exercise a right to appoint their own Metering Coordinator? If so, what arrangements would need to be put in place to govern that relationship?

Are any additional consumer protections required to support a direct relationship between a consumer and a Metering Coordinator?

AGL strongly believes that the same customer protections and privacy obligations should apply to all entities that contract with customers to ensure customers are protected and to maintain competitive neutrality.

The CEC Rule Change Request proposes that customers have the right to engage directly with the MC. AGL notes that this is already occurring in the Commercial and Industrial space where customers directly engage with the Meter Service Providers today. AGL does not believe there will be a significant demand to directly engage with the MC in the residential and small business space. To ensure that we have the appropriate framework in place to enable this arrangement, however, AGL is of the view that:

- Obligations set out under the Privacy Act and the NECF will need to apply equally to all parties that deal directly with customers;
- All necessary processes will be required to allow the MC to establish, maintain and transfer sites and for the MC role to be transferred between participants;
- Contractual terms will need to be specified so that a retailer can manage the collection of charges and verify services are in place, if retailers are required to recover the costs.

The NECF is predicated on a triangular relationship, whereby small customers have a direct legal relationship with both retailers and distributors. That is, the NECF establishes rights and obligations between customers and distributors, and between customers and retailers. The NECF also requires retailers and distributors to cooperate to assist one another in meeting their respective obligations under the NECF.

Accordingly, the proposal to establish a new MC role, with whom small customers will have the option of contracting directly, would require a change to the NECF provisions to regulate the relationship between the MC and the customer, thereby ensuring the customer is appropriately protected.

AGL suggests that a reasonable option would be to defer until after the competition review that the AEMC proposes to conduct to assess the effectiveness of the smart metering market when the other changes have had time to take effect.

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Unbundling metering charges from distribution use of system charges

Question:

Do the NER require any changes to facilitate unbundling of metering charges from distribution use of system charges? If so, what factors should be considered?

The NER do not effectively ensure that all metering costs are separated from energy transport costs. AGL therefore believes the AER needs to review the classification of metering services currently provided by distribution businesses.

AGL considers that all metering and metering services should be contestable, including load control services. Further, AGL does not support the retention of the option for distribution businesses to roll out smart meters in their areas, including new and replacement or DSP programs [unless it is via a competitive (or ring-fenced) entity]. This adds a great deal of uncertainty to and detracts from any value proposition of a retailer contemplating a Market Led roll-out that delivers value to customers.

Therefore AGL believes that the unbundling of metering charges from DUOS should assess what is deemed as part of their regulated asset funding so as to avoid further barriers to metering and metering services competition.

Exit fees for accumulation and manually read interval meters

Questions:

Should the AER have a role in determining exit fees for accumulation and manually read interval meters? If so, are SCER's proposed criteria for determining exit fees appropriate, and should a cap on fees be considered?

AGL notes that one of the key characteristics of a Market Led approach is that Smart meters are installed on an 'opt out' basis, at no additional cost to the customer, over and above their existing metering charge. The approach is based on a commercial business case and therefore the bundled meter charges from DUOS and the treatment of the recovery of distributors' regulated investment costs are critical elements of the business case.

AGL believes that there needs to be a mechanism established for Distribution businesses to recover sunk costs on their meter investments. However, we note that there are several options that can be explored to achieve this outcome.

The CEC propose a set of criteria which include the proposal for exit fees to be based on the average depreciated value of the stock of the existing accumulation and manually read interval meters and may include administration fees. AGL notes that using these principles could lead to exit fees of ~\$67 to ~197 in NSW. We also note the administration fee is a significant part of this calculation which we consider to be excessive. The introduction of such exit fees creates a substantial additional cost that may impede a smart meter Market Led approach. We note that the additional cost borne by the commercial business making an investment, will make it uneconomic to install smart meters.

AGL believes there are several options that can be explored to ensure that Distribution businesses recover sunk costs on their meter investments, and would welcome the opportunity to discuss. We believe the AER is the appropriate regulator to determine the

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most appropriate solution and mechanism, given their current role in the regulatory setting for Distribution Networks. AGL requests that an open consultation between all interested parties including AER, AEMC, Retailers and Distribution network businesses should be conducted to assess options and determine the best approach on this critical issue.

Provision for network businesses to provide smart meters as part of a regulated DSP business case

Questions:

Are the existing arrangements under the NER appropriate to enable a distribution network business to allow for advanced metering technology as part of a regulated DSP business case/program?

If not, what additional arrangements might need to be put in place to allow sufficient certainty to distribution businesses to do so?

AGL believes that competitive neutrality is a critical principle and must be protected where there is a potential for a market participant to derive an unfair competitive advantage via a monopoly position of a related party.⁴ This principle is consistent with the framework and agreements of National Competition Policy (NCP) that included structural separation of regulated businesses from their competitive activities. AGL believes ring-fencing is an essential regulatory tool to ensure that there is no cross subsidy between the distributors' regulated and unregulated business.

Therefore, AGL does not support the provision of smart metering under any regulated environment. There is a risk in commercial investment in smart metering when regulated entities such as network businesses are allowed to provide metering under any arrangement.

AGL agrees with the proposed Rule Change Request, that in order to maintain the network security and investment, if ripple control or load control exists at a connection point at the time of a smart meter installation under a Market led, then that load control functionality needs to be maintained and the service delivered to the Network.

Ring fencing arrangements

Questions:

Are changes required to the AER's ring fencing guidelines to accommodate a distribution network business seeking to take on the role of Metering Coordinator?

AGL believes that competitive neutrality is a key element in a contestable market. To enable competitive neutrality, ring fencing arrangements need to be established. If a distributor seeks to participate in the contestable market, so that it does not do so as a regulated business, but rather as a contestable entity. This will require the distributor to legally separate their investment, operation and accounting functions between monopoly and competitive businesses as is currently required under the ring-fencing guidelines.

The issue of ring-fencing and its application to emerging technology services that are, or can be, provided by distribution businesses has been reviewed previously by AER⁵. In that review, the AER concluded that the existing ring fencing guidelines need to be revised so that they can adequately cover contestable emerging technologies and energy services that may be provided by a regulated business⁶.

⁴ ERAA Competitive Neutrality in energy service provision

⁵ AER Position Paper, Electricity Distribution Ring-fencing Guideline, p. 6

⁶ *Ibid* p. 9, 10

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AGL has emphasised that competitive neutrality is a critical principle that must be protected where there is a potential for a market participant to derive an unfair competitive advantage via a monopoly position of a related party.⁷ This principle is consistent with the framework and agreements of National Competition Policy (NCP) that included structural separation of a monopoly business from its competitive activities. As AGL believes ring-fencing is an essential regulatory tool to ensure that there is no cross subsidy between the distributors' regulated and unregulated business.

Proposal for a new minimum smart meter functionality specification

Although the AEMC is not seeking direct feedback on the proposal for the development of a minimum smart meter functionality specification, AGL supports the AEMC and the CEC's proposal and we believe that a national minimum smart meter standard requirement are established.

Governance arrangements

Questions:

What do you consider are the appropriate governance arrangements for allowing for a new smart meter minimum specification in the NER?

Is AEMO the appropriate body to develop and maintain the proposed minimum functionality specification to support competition in metering and related services, or are there alternative options that could be considered?

AGL supports the proposal for AEMO to administer the development of a national minimum smart meter functionality specification working closely with Industry. AGL believes that the governance structure that currently exist for the Metrology developments is sufficient to support smart meter functionality determination.

Jurisdictional new and replacement policies

Questions:

Should there be arrangements that allow for jurisdictions to determine their own new and replacement policies or should all new and replacements meet a common minimum functionality specification?

AGL does not support allowing jurisdictional differences arrangements to be introduced.

The establishment (or risk of establishment) of inconsistent jurisdictional new and replacement policies also has the potential to undermine metering investments and create a barrier to market entry. We believe that commercial investment, economies of scale, customer experience and efficiencies are compromised when jurisdictional differences are introduced and/or allowed to exist. The potential that this could be done in future introduces substantial risk into investment decisions, and jeopardises the viability of the competitive market.

Further, AGL does not support the retention of the option for distribution businesses to roll out smart meters in their areas, including new and replacement or Demand Side Participation (DSP) programs. This adds a great deal of uncertainty to and detracts from any value proposition of a retailer contemplating a Market Led roll-out that delivers value to customers.

Therefore, consistent with the AEMC Power of Choice, AGL proposes an open and contestable national approach to new and replacement of electricity meters. AGL believes

⁷ ERAA Competitive Neutrality in energy service provision

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that a contestable Market Led approach will deliver greater benefits and ensures that customers are engaged and participate on the journey. This would mean that for new and replacement meters:

- the Network business, as the party who has exclusive visibility of aging assets on their network, advise the Retailer of these sites;
- the Retailer, as the Responsible Person for metering arrangements, can either contract with a contestable meter service provider for metering services based on commercial arrangements; or
- Otherwise, the retailer contracts the Network business to install an accumulation meter.

In our view meters should be viewed by customers as part of their retailer's delivery of a service and product offering as meters are, essentially, the means by which retailer services are facilitated.

Jurisdictional reversion policy

Although the AEMC is not seeking direct feedback on this topic, AGL supports the establishment of a no reversion policy that demonstrates strong foundation and governance to ensure that the risk of meter displacement is mitigated.

Transitional and implementation arrangements- Arrangements for Victoria

Questions:

Is it appropriate that the Victorian distribution network businesses would become the Metering Coordinator for the smart meters they have deployed?

Should an exclusivity arrangement be put in place to allow Victorian distribution network businesses to continue in the Metering Coordinator role for a specified period of time? If so, should this be determined by the Victorian Government or defined in the NER?

Should Victoria's local distribution network business be required to take on the Metering Coordinator role as a ring fenced entity after the exclusivity period has ended?

AGL does not support jurisdictional rights to prescribe MC exclusivity, including for Victoria. The recent National Electricity Amendment (Victorian Jurisdictional Derogation, Advanced Metering Infrastructure) Rule 2013 extends the existing Victorian jurisdiction derogation under chapter 7 of the National Electricity Rules (NER) for up to three years to 2016.

AGL is concerned that there has been no indication or commitment by the Victorian government to transition Victoria to a contestable metering approach. AGL therefore seeks a firm recommendation and commitment from the outcomes of the Rule Change Request to ensure that Victoria commences a transition prior to the end of the derogation in December 2016.

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