AUSTRALIAN ENERGY REGULATOR

GPO Box 520
Melbourne Vic 3001
Telephone: 03 9290 1444
Facsimile: 03 9290 1457
www.aer.gov.au

Our Ref: M2010/46
Your Ref: ERP0018
Contact Officer: Mark McLeish
Contact Phone: (03) 9290 1834

3 February 2010

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

John

Dear Dr ~~Tamblyn~~,

Cost Recovery for Mandated Smart Metering Infrastructure – Draft Statement of Approach, ERP0018

The AER values the opportunity to comment on the AEMC's draft statement of approach to cost recovery for smart metering infrastructure.

The AER considers that the incentive regulation under chapter 6 of the NER is the appropriate framework for the recovery of efficient costs arising from a Ministerial determination mandating investment in smart metering infrastructure. In responding to the AEMC's draft statement, the AER has had regard to experience with its existing responsibilities under the Victorian advanced metering infrastructure framework.

In relation to the questions in the AEMC's draft statement of approach, the AER makes the following comments:

- **Question 4** – in looking at whether a 60 business day timeframe is sufficient for the AER to form a view on a pass through of costs arising from a Ministerial determination for a smart meter roll-out, the AEMC should consider the potential for the AER to be requested to assess multiple cost pass through applications for investment in smart metering infrastructure in the same jurisdiction simultaneously. Overall, the AER considers that a 60 review period is inadequate.

  The adequacy of the 60 business day timeframe should be compared to the eight months allowed under the Victorian framework for the AER to reach a final view after receiving the initial budget applications. The AER's experience was that it needed all of this eight month period to adequately test and consult on the DNSP proposals. Moreover, the AER notes that the Victorian framework did not provide for an efficiency assessment. Hence, additional time may be required for the AER to conduct a review of smart meter roll-out proposals under an incentive regulation framework where the AER would need to conduct a more intensive review of efficient costs.

- **Question 9** – item 12.3 of the terms of reference requests that the AEMC consider whether the framework allows the AER to obtain the necessary information to ensure that the benefits from a smart meter rollout are being realised within a 'reasonable timeframe'. There appears to be a lack of clarity in the terms of reference and the draft statement of approach about what a reasonable timeframe for the realisation of the benefits arising from a smart meter roll out would be. The AEMC might be assisted by seeking to define 'reasonable timeframe' in its draft advice.

  The AER considers that its role under an incentive framework should be limited to assessing and monitoring only those benefits relating to DNSP costs and revenues. It would be expected that the network benefits arising from a smart meter roll-out would be identified in the DNSP planning cycle, and would be reflected in the DNSPs' regulatory proposals, which would subsequently be assessed by the AER. Certainly the AER is well placed to evaluate proposed costs in light of network efficiencies identified in smart meter roll out benefit assessments.

  Further potential benefits arising from a smart meter roll-out (such as the impact of changed demand patterns on peak generation capacity, and the impact on carbon emissions) are outside the scope of the AER's role in regulating the revenues of DNSPs. These benefits may be more appropriately assessed through industry planning processes.

- **Question 10** – the role than an EBSS plays in an incentive regulation framework is to ensure that the regulated firm has symmetric incentives to reduce its costs over the course of the regulatory period. As identified by the AEMC, it would appear that removing the EBSS for a smart meter roll-out would make it possible for additional benefits to be passed on more quickly, but reduce the DNSP's incentive to make cost savings. In investigating this issue, the AEMC should carefully consider the interaction of different schemes on the incentives of DNSPs to reduce operating expenditure, and the practical issue of how cost efficiencies arising from smart meter roll-outs would be separated from other operating cost savings.

The AER will provide further input into the AEMC's advice as the AEMC develops its advice. Should you wish to discuss this submission, please contact Chris Pattas on (03) 9290 1470, or alternatively Mark McLeish on (03) 9290 1834.

Yours sincerely

Steve Edwell
Chairman
Australian Energy Regulator