11 October 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Lodged electronically at www.aemc.gov.au

Dear Mr Pierce

ActewAGL Distribution Response to Power of Choice Draft Report

ActewAGL Distribution appreciates the opportunity to respond to the Australian Energy Market Commission's *Power of choice – giving consumers options in the way they use electricity: draft report*. The report is wide-ranging and provides a useful basis for further consultation on the incentives and opportunities for demand side participation. We strongly support the broad objectives of giving consumers options and providing a framework that allows consumers and industry to find the solutions that work best for all parties. However, we are concerned that some of the AEMC's proposals, particularly in relation to network pricing and metering, are overly prescriptive and may result in less choice and flexibility and unnecessary costs for consumers.

Our comments on these and other matters are provided in the attached submission. If you would like to discuss any aspect of our submission please contact Leanne Holmes, Manager Economic Regulation, on 0412 850715.

Yours sincerely

David Graham
Director Regulatory Affairs and Pricing

Power of choice

Response to the Australian Energy Market Commission (AEMC) Draft Report

October 2012

ActewAGL for you

Introduction

ActewAGL Distribution welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) *Power of choice – giving consumers options in the way they use electricity: Draft Report* (draft report), released on 6 September 2012.

ActewAGL Distribution, a partnership between ACTEW Distribution Ltd and Jemena Networks (ACT) Pty Ltd, owns and operates the electricity distribution network in the Australian Capital Territory (ACT). ActewAGL Distribution also owns the gas distribution networks in the ACT, Greater Queanbeyan and Shoalhaven. ActewAGL Distribution and ActewAGL Retail together form the ActewAGL Joint Venture partnership. ActewAGL Retail purchases and retails electricity and gas services in the ACT and throughout the Capital Region (including Goulburn, Yass, Young, Nowra and Bega).

The AEMC's review of incentives and opportunities for demand side participation (DSP) has been comprehensive. In the draft report the AEMC makes recommendations on a wide range of matters affecting distribution and retail businesses, their customers and other energy market participants. Our comments in this submission focus on three areas – network pricing, metering and the role of distribution network services providers (DNSPs) in providing and facilitating DSP. ActewAGL Distribution is a member of the Energy Networks Association (ENA) and endorses the comments in the ENA submission.

ActewAGL Distribution agrees with the broad themes coming out of the AEMC's review – for example, "consumers, given the right information and tools, will be in the best position to decide what course of action is appropriate for them", and "it is important to have a framework that allows and facilitates consumers and industry to find the solutions that work for all parties".[1]

However, ActewAGL Distribution is concerned that the AEMC is proposing an overly prescriptive approach for network pricing and metering which may reduce choice and flexibility for consumers and DNSPs and impose unnecessary costs on consumers. Our concerns in relation to network pricing and metering are set out in the following two parts of this submission. Our comments on the role of DNSPs in providing and facilitating DSP services and distributed generation are discussed in the final part of this submission.

[1] AEMC 2012, *Power of choice – draft report*, p. vi

Network pricing

The AEMC's draft proposals

One of the key elements of the AEMC's draft reform package is the gradual phasing in of time varying network tariffs. The AEMC's proposed approach involves:

- *"Focussing only on introducing time varying prices for the network tariff component of consumer bills. Retailers would be free to decide how to include the relevant network tariff into their retail offers; and*
- *Segmenting residential and small business consumers into three different consumption bands and applying time varying network tariffs in different ways. This would work as:*
    - *For large consumers (band 1), the relevant network tariff component of the retail price must be time varying. This would require these consumers to have a meter that can be read on an interval basis.*
    - *Medium to large consumers (band 2) with an interval meter would transition to a retail price which includes a time varying network tariff component. These customers would have the option of a flat network tariff.*
    - *Small to medium consumers (band 3) would remain on a flat network tariff. These consumers would have the option to select a retail offer which includes a time varying network tariff, if they so choose."*[2]

The AEMC proposes to implement this recommendation through changes to the network pricing principles in the National Electricity Rules (NER):

"We propose that the distribution pricing principles should specify that, where consumers have an interval meter in place the applicable network tariff should reflect our recommendations for the proposed transition to time varying rates. This includes appropriate guidance on calculating time varying network tariffs."[3]

The AEMC goes on to say:

"An alternative to setting critical peak pricing is to set a charge based on a consumer's demand during the peak periods over the year. This could be based on a kW, rather than kWh, measurement, during those peaks. However, we recognise that more analysis is

[2] AEMC 2012, *Power of choice – draft report*, p. 99
[3] op cit, p. 107

needed on how distribution businesses could move from consumption charges to demand charges and how to best manage the resulting impacts on consumers."

ActewAGL Distribution's response

ActewAGL Distribution agrees that time varying tariffs play a critical role in encouraging efficient use of electricity networks. However, we do not support the AEMC's prescriptive approach to phasing in time varying tariffs for different consumer groups. The AEMC is proposing to prescribe an unnecessary and potentially harmful solution to a problem that does not exist in the ACT, where a range of tariff options, including time-of-use (TOU) tariffs, are currently offered. Consistent with one of the central themes in the AEMC's draft report, consumers should be given choices, not have certain types of tariffs imposed on them.

ActewAGL Distribution is already offering both TOU and demand tariffs to customers. Approximately 52 per cent of ACT energy throughput is billed on TOU tariffs. TOU tariffs are the default option for all new customers, and they have the option to switch to an alternative tariff. Existing residential customers have the choice of three flat tariffs, a TOU tariff and two off-peak tariffs. Commercial customers have a choice of flat, TOU or demand tariffs (which also incorporate TOU charges). The proportion of commercial customers on TOU or demand tariffs is currently 17 per cent. These customers represent 80 per cent of the commercial load. However, reflecting the diverse requirements and circumstances of commercial customers, not all have chosen TOU or demand tariffs.

The AEMC's draft proposal for introducing time varying tariffs would require a fundamental shift away from ActewAGL Distribution's current approach of adopting the TOU tariff as the default for all new customers and offering a range of tariff options to suit different customer needs.

ActewAGL Distribution also opposes the AEMC's draft proposal to implement the phased introduction of time varying charges through changes to the pricing principles in the NER, including "guidance on calculating time varying tariffs". We believe that the existing pricing principles provide the appropriate degree of guidance on network pricing, and provide flexibility for distribution network service providers (DNSPs) to develop their own tariffs which best reflect the underlying costs of their network and best meet the needs of their customers. Adding new requirements on how to calculate time varying tariffs is unnecessarily prescriptive, and may discourage the types of innovative network pricing that have been emerging in recent years.

The AEMC also proposes to introduce a new requirement for DNSPs to consult with customers on proposed network tariffs. ActewAGL Distribution urges the AEMC to carefully consider the practical difficulties associated with this proposal, noting that there is already very limited time for the network pricing approval process, particularly in the

first year of the regulatory period. ActewAGL Distribution notes that there is ample scope for consumers and any other stakeholders to participate in the distribution determination process, where the underlying drivers of network prices are established. Network pricing proposals are made public, on the AER website, and consumers are able to raise any concerns with the DNSP or the AER.

ActewAGL Distribution agrees with the AEMC's draft recommendation that the network pricing side constraints should be reviewed.[4] ActewAGL Distribution believes that side constraints are overly prescriptive and limit pricing flexibility and should be relaxed.

Metering

The AEMC's draft proposals

The AEMC's starting position in relation to metering is that "the current arrangements are inhibiting the ability of consumers and market participants to invest in metering technology which supports DSP. To overcome these barriers, a policy decision is required to determine how meters should be provided for residential and small business consumers".[5] The AEMC makes recommendations on minimum functionality and roll-out of meters and the competitive model under which they should be provided.

The AEMC recommends:

- *"A minimum functionality specification is included into the NER for all future new meters installed for residential and small businesses consumers. This specification should include interval read capability and remote communications.*
- *The installation of metering consistent with this minimum functionality must occur in certain situations. eg. refurbishment, new connections, replacement of old meters.*
- *In addition, such metering capability must also be installed on an accelerated basis for large residential and small business consumers with annual consumption above a defined threshold."*[6]

The AEMC also proposes that a contestable model replace the current monopoly model for metering service provision:

"The choice is between opening up the provision of metering services to any approved provider or making the local network distribution businesses the exclusive provider. We have

[4] AEMC 2012, *Power of choice – draft report*, p. 108
[5] AEMC 2012, *Power of choice – draft report*, p. 52
[6] AEMC 2012, *Power of choice – draft report*, p. 42

put forward a possible model for stakeholder comment where the retailer is mainly responsible for metering services, and can contract with any approved metering provider."

The AEMC says:

"We favour a contestable approach because meter provision does not have the characteristics of a monopoly service and we consider it will drive innovation and metering services are lower cost."[7]

The AEMC has also made recommendations on metering in its electric and natural gas vehicles review. The proposed metering arrangements would allow consumers with an electric car to separate the power for charging the car from the household's general electricity consumption. This would enable consumers to have different suppliers providing separate energy services, including different prices for each segment of its electricity load.[8]

ActewAGL Distribution's response

Minimum functionality

ActewAGL Distribution is currently required to install interval meters in all new premises and as replacement meters.[9] ActewAGL has programmed its new meters so they may be manually read from the meter display as TOU meters. By default, it reads all these meters as TOU meters. In this way ActewAGL is able to offer consumers TOU tariffs without the additional metering costs associated with remotely read meters.

ActewAGL Distribution opposes any moves to require new meters to be remotely read, as this would impose significant additional cost on consumers with limited additional benefit. ActewAGL's meter reading service provider currently undertakes water, gas and electricity meter readings at the same time. Therefore, if electricity meters were read remotely, the saving in meter reading costs would be small.

The AEMC notes that the Standing Council on Energy and Resources (SCER) has already endorsed a minimum functionality specification for smart meters (SMI Minimum Functionality Specification), which is available to jurisdictional Ministers should they wish to evoke a mandatory roll-out of smart meters.[10] ActewAGL Distribution considers that the AEMC's proposal to specify a minimum functionality in the NER for all new meters (as well as replacements and refurbishments) is more intrusive, and potentially more

[7] AEMC 2012, *Power of choice – draft report*, p. 56
[8] AEMC 2012, *Power of choice – metering fact sheet*, p. 2
[9] Independent Competition and Regulatory Commission (ICRC) 2005, *Review of metrology procedures, final decision*, report no. 5, December.
[10] AEMC 2012, *Power of choice – draft report*, p. 48

costly, than SCER's endorsement of a functionality which may be adopted in jurisdictions where a roll-out is mandated.

Accelerated roll-out

ActewAGL Distribution does not support the AEMC's draft recommendation for an accelerated roll-out of meters, with the minimum specified functionality, for all customers with annual consumption above a defined threshold. We consider that decisions to roll-out smart meters should continue to be made at a jurisdictional level and take into account jurisdictional characteristics.

A key conclusion from the smart meter cost benefit analyses commissioned by the MCE was that costs and benefits of smart meter roll-outs will vary across jurisdictions. For example, the consultants found that for the ACT there are unlikely to be network deferral benefits arising from the roll-out of smart meters.[11] Recognising the uncertainty and likely differences in costs and benefits, the MCE supported undertaking trials to inform Ministers in determining whether a roll-out should proceed in each jurisdiction.

The ACT Government has announced that it will decide whether to fast-track the roll-out of smart meters based on an assessment of further results from studies and trials, including outcomes from the national Smart Grid/Smart City project. [12]

Contestable and regulated metering services

Remotely read metering is a fully contestable and unregulated service for all consumers in the ACT. ActewAGL does not have a licence to provide remotely read metering services. Retailers are free to appoint their own metering service provider to install remotely read meters in customer premises.

The provision of manually read metering services for consumers using less than 160 MWh per annum is regulated as an alternative control service in the ACT. Charges for these metering services (which include meter testing, reading, checking and processing metering data) are separate to distribution use of system (DUoS) charges.

We note that in the draft report the AEMC says that in several jurisdictions, including the ACT, retailers and consumers "face strong disincentives to investing in advanced metering infrastructure (AMI)" because metering costs are not unbundled from DUoS charges, and "this means consumers with AMI would end up paying twice for their metering".[13]

---

[11] NERA Economic Consulting 2008, *Report for the Minister Council on Energy Smart Meter Working Group: Cost benefit Analysis of Smart Metering and Direct Load Control*, p. 84
[12] ACT Government 2011, *ACT Sustainable Energy Policy, Energy for a sustainable city*, 2011-2020, Environment and Sustainable Development
[13] AEMC 2012, *Power of choice – draft report*, p. 53

The AEMC's assessment and conclusions are not correct for the ACT. Metering charges are unbundled from DUoS charges. Any consumer that changes to a remotely read meter will no longer be subject to the regulated charge for the manually read metering service. The current ACT arrangements do not create the identified disincentive to investing in AMI.

Metering for electric vehicles

ActewAGL Distribution supports initiatives to accommodate efficient uptake of electric vehicles and natural gas vehicles. To this end ActewAGL Distribution has introduced tariff options which are similar to the model proposed by the AEMC, but involve lower costs as an additional meter is not required.

Under the new arrangement, approved by the AER for implementation from July 2012, ActewAGL Distribution allows residential consumers with a meter with two registers, each capable of providing TOU consumption data, to have TOU charges applied separately to each register. The single meter is subject to only one supply charge, and the data is sent to one retailer. The retailer is required to apply the TOU network tariff for both registers. ActewAGL Distribution also offers off-peak (night time only) tariffs for electric vehicles.

ActewAGL Distribution believes this arrangement is more cost effective than the AEMC's model which requires two meters. With two separate meters, and meter data sent to two retailers, there will be two national meter identifiers (NMIs) and two fixed charges. There are also costs associated with installing an additional meter, and potential health and safety issues where new holes must be drilled in old asbestos meter boards. ActewAGL Distribution currently has some customers with two meters in their meter box – for example, to allow different off-peak tariffs to apply for water and slab heating. However, this can be an expensive metering option that ActewAGL Distribution considers should be avoided when other more efficient options are readily available.

Role of DNSPs in providing or facilitating DSP

ActewAGL Distribution agrees with the AEMC's view that the current regulatory arrangements do not adequately support the roles of network businesses in directly undertaking DSP projects as an alternative to infrastructure investment, or facilitating the delivery of DSP by other parties. Our responses to some of the options raised by the AEMC to address these issues are set out below.

Demand management incentive schemes

ActewAGL Distribution agrees with the AEMC's recommendation that the AER should consider reforming the current demand management and embedded generation

connection incentive scheme (DMEGCIS). As both the AEMC and the AER have noted, the current scheme is not a true incentive scheme, as it does not allow businesses to earn extra rewards if they achieve defined goals. Instead the current scheme provides a limited innovation allowance and involves disproportionately high administration costs.

ActewAGL Distribution agrees with the AEMC's view that "the specific application of the scheme should be developed through consultation between the AER and the network businesses." [14] The AEMC also says:

"There may be merit in allowing the business to propose how it thinks the incentive scheme should be applied. The AER would approve or adapt the application based upon the set of principles, and possibly an overall objective."

ActewAGL Distribution supports this approach, over alternatives which could involve greater prescription in the NER or related AER guidelines.

The link between profits and volumes

In the draft report the AEMC considers the issue of DNSPs having limited incentives to pursue DSP projects when profits are linked to volumes. The AEMC considers several options for addressing this concern.

ActewAGL Distribution agrees with the AEMC's assessment that the option of moving DNSPs onto revenue caps should not be pursued. The AEMC explains:

"... any move towards revenue cap regulation would need to be supported by introducing more prescriptive detail in the rules on how distribution network businesses set their network tariffs. While we have found that the incentive to set tariffs at efficient costs under a price cap regulation is weaker than what was assumed, it will still be considerably better than under revenue cap regulation."[15]

The AEMC's preferred option for addressing the link between profits and volumes involves two parts:

- Include in the DMEGCIS an allowance for foregone revenue associated with tariff measures (the foregone revenue component of the current scheme applies only to non-tariff measures); and
- Change the network pricing principles in the NER to guide network tariff structures.

ActewAGL Distribution agrees that the AER should consider the option of expanding the foregone revenue component in the DMEGCIS. However we do not agree with the

[14] AEMC 2012, *Power of choice – draft report*, p. 124
[15] AEMC 2012, *Power of choice – draft report*, p. 130

AEMC position that "the pricing principles in the NER need to be amended to provide greater guidance on how network businesses should set their tariffs to reflect their costs".[16] If changes are made to the pricing principles, they should not involve further prescription, but instead provide high level principles with flexibility for DNSPs to determine how to best structure their tariffs, while satisfying the high level principles and objectives.

Obligations on distribution businesses to reduce peak demand

In the draft report the AEMC says that some consumer and environmental groups have raised the option of imposing obligations on network businesses to achieve targeted reductions in peak demand. The AEMC examines several ways in which such a scheme could operate, and concludes "we do not consider placing a target on distribution businesses to be appropriate".[17]

ActewAGL Distribution strongly opposes any moves to impose obligations on network businesses to achieve target reductions in peak demand. We agree with the AEMC's assessment, and note that the heavy-handed option of forcing network businesses to reduce the services they provide (in response to consumer demand) is completely at odds with the notion of "power of choice" and will result in inefficient outcomes and unnecessary costs for distribution businesses and consumers.

Distributed generation

The AEMC considers that there are likely to be significant benefits from allowing distribution businesses to export power from distributed generation (DG) assets into the wholesale market. However:

"These benefits may not be realised if ring-fencing arrangements place stringent restrictions on the ability of DNSPs to provide generation services." [18]

ActewAGL Distribution agrees with the AEMC's assessment and supports its recommendation that:

"the AER should give consideration to the benefits of allowing distribution network businesses to own and operate DG assets when developing the national consistent ring fencing guidelines for these businesses."[19]

The AER is currently reviewing electricity distribution ring-fencing guidelines. In response to the AER's position paper ActewAGL Distribution has argued that the AER should take

[16] AEMC 2012, *Power of choice – draft report*, p. 127
[17] AEMC 2012, *Power of choice – draft report*, p. 134
[18] AEMC 2012, *Power of choice – draft report*, p. 144
[19] AEMC 2012, *Power of choice – draft report*, p. 142

account of the benefits of DNSPs engaging in distributed generation, when amending existing ring-fencing guidelines or developing new guidelines.

Engaging with consumers to provide DSP products and services

The AEMC recognises the need to balance the costs of DSP with the respective benefits:

"At an individual consumer level, efficient DSP is about striking a balance between the value that consumers place on their electricity consumption and the benefits that result if they were to reduce or otherwise change their consumption. For the market, efficient DSP occurs when the cost of doing DSP is less than the system cost savings and benefits."[20]

ActewAGL Distribution believes it is also necessary to consider the benefits and costs associated with engaging with consumers and third party DSP providers. Operational areas of network businesses will be required to liaise with third parties and in some cases coordinate DSP engagement. In the draft report the AEMC does not discuss the potential impacts for network operational areas. These additional responsibilities and processes are likely to involve significant costs. ActewAGL Distribution believes that the AEMC should adopt a flexible approach to these processes to keep costs to a minimum.

The AEMC also notes the need for clarification regarding arrangements for third parties providing DSP energy services:

"This should involve establishing criteria either in the NECF or the AER guidelines on retail exemptions. The criteria could include the circumstances where accreditation (or exemptions) of parties is required and the relevant provisions of the NECF that would apply (ie marketing rules, and the relevant enforcement and monitoring provisions)."[21]

To avoid potential confusion on the roles of third parties providing DSP services and products, ActewAGL Distribution suggests this clarification should also extend to the role of technical regulators in relation to DSP.

[20] AEMC 2012, *Power of choice - draft report,* p. 10
[21] AEMC 2012, *Power of choice - draft report,* p. v