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EPDR 2005 – 2010: Draft Determination
Essential Services Commission of South Australia
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Draft 2005 – 2010 Electricity Distribution Price Determination

AGL South Australia (AGL SA) welcomes the opportunity to comment on the Commission's "Draft 2005 – 2010 Electricity Distribution Price Determination" (the Draft Report).

AGL SA is not in a position to comment on the Commission's review of ETSA Utilities capital and operating costs. Our submission on the draft report specifically address the following matters:

- Demand management;
- Metering and
- Retailer of last resort arrangements

Demand Management

The Commission has made a provision of up to \$20M over the regulatory period for ETSA Utilities to undertake demand management initiatives. The initiatives identified in the draft report include:

- Power factor correction;
- Standby generation;
- Direct load control;
- Critical peak pricing;
- Interval meters;
- Voluntary load control and curtailable load for large customers;
- Aggregation; and
- Demand management organisation within ETSA Utilities.

AGL SA supports demand management initiatives that have the primary purpose of decreasing the growth of peak loads on networks and minimising overall energy costs to customers. AGL considers that all market participants who are in a position to provide demand management solutions should be encouraged to do so.



AGL SA believes that retailers should be closely involved in the formation of demand management strategies because retailers are generally responsible for managing the relationship with the customer. Demand management initiatives can have implications for wholesale costs, retail operating costs and retailer billing systems. Without retailer involvement the full benefits cannot be attained. AGL SA notes that the Commission has acknowledged the need for ETSA Utilities to work closely with retailers on demand management initiatives.

AGL SA has the following specific comments on demand management:

- Maintenance of hot water timeclocks is likely to be the a cost-effective short-term solution for shifting peak demand to off-peak as sample surveys of customers timeclocks indicate that up to 50% of the timeclocks may be set to the wrong time. AGL strongly believes that ETSA should invest in a maintenance program, similar to other states. This is discussed in more detail below in the metering comments.
- AGL SA supports the Commissions position on Power factor correction. In particular AGL SA understands that air conditioners have poor power factor and power factor correction may prove to be an effective demand management solution.
- AGL SA believes that Retailers must be involved with demand management initiatives. For example AGL SA would be pleased to participate in direct load control trials. AGL SA is currently planning these trials for Victoria. AGL SA is also already trialing Critical Peak Pricing in Victoria and would be pleased to share its results to benefit the SA market - this may avoid the need to duplicate the trials in SA.
- AGL SA supports the Commission's position on the limitations of interval meters in cost effective demand management.

Please note that AGL SA has provided detailed comments on the initiatives proposed as part of the Commission consultation on "*Demand Management and the Electricity Distribution Network - Draft Decision.*"

Metering

AGL SA has the following comments on metering in the SA electricity market:

- AGL SA believes that the distributor should accept customer meter reads as actual meter reads. This matter was discussed in some detail with ETSA and ESCOSA at the time of the handover of metering responsibilities to ETSA. It was then agreed that ETSA would estimate the cost associated with the cost of implementing these arrangements and that ESCOSA would consider allowing cost recovery as part of the Distribution Price Review at this time. AGL SA has continued to accept customer reads for the past 14 months as an interim solution but would like this function to be transferred to ETSA as soon as practicable.
- AGL SA believes that non standard meter types should be contestable. For example prepayment meters are currently considered to be type 6 or possibly type 5. These should be contestable and available for retailers to offer to customers under market contracts.
- AGL SA agrees that standard Type 6 accumulation meters should be the responsibility of the distributor. Having said that, AGL SA is concerned that the distributor must be *accountable* for the meters as well as *responsible*. For example there should be regular maintenance of meters and timeclocks. AGL SA understands that off peak hot water timeclocks have not been maintained for many years with the

result that off peak switching occurs randomly over the 24-hour period. AGL SA understands that maintenance was stopped many years ago as a cost saving. This should be addressed through a maintenance program with quite substantial resourcing initially to "catch up" over the next 12 months. One major benefit will be that the peak load could be significantly reduced in time for next summer.

- In principle AGL SA supports contestability of metering and therefore favours that retailers should have the option of installing these meters (Types 4 or 5). However distributors should be meter provider of last resort, if retailers determine that it is not efficient for them to have responsible (eg especially for small retailers).
- Whilst AGL SA supports ETSA having responsibility for type 6 meters, it believes that retailers should have the option of responsibility for disconnections and reconnections as this would create greater efficiency and effectiveness for these processes.

Retailer of last resort arrangements

AGL SA notes that ETSA Utilities responsibility to provide retailer of last resort services has been extended to 2010. The Commission has indicated that the:

- Establishment costs of providing retailer of last resort services will be provisioned for as part of distribution services; and
- Actual costs of providing the retailer of last resort services will be excluded services in accordance with the Commission's guidelines and is to apply to those customers affected by the event.

AGL SA believes that ETSA Utilities is likely to seek to outsource the provision of retailer of last resort services to a retailer in SA and indeed the Commission has the legislative power to request retailers to provide such services. AGL SA requests that the following matters be taken into account when finalising the distribution price determination:

- The retailer selected to provide retailer of last resort services will also incur establishment costs that would need to be provided for out of the provision made for ETSA Utilities; and
- There is likely to be instability in the wholesale market following a retailer of last resort event without the supplier providing this service being adequately hedged. This has the potential to result in actual costs that are significantly higher than the costs to customers under normal circumstances. Consideration needs to be given to the affected customers' capacity to accommodate potentially high costs and to alternative options for cost recovery.

Please contact Robert Shannahan, Manager Retail Regulation, on telephone (08) 8299 5542 if you wish to discuss these matters further.

Yours sincerely

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