

September 2022

# Our Metering Services for 2024–29

for consultation

Empowering communities for a resilient, affordable and net-zero future.

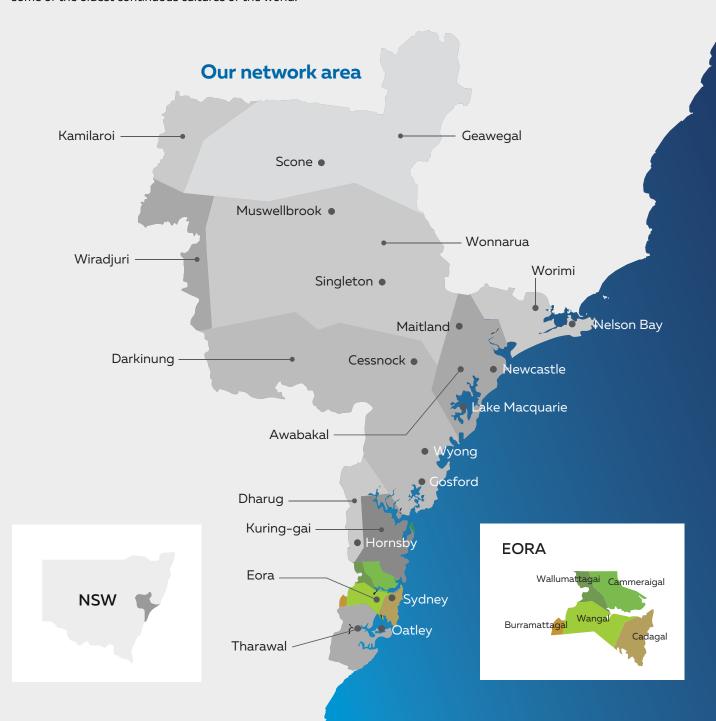


# **Acknowledgment of Country**

We acknowledge the Traditional Custodians of the lands where the Ausgrid distribution network is located, and we pay our respects to the elders past, present and emerging.

As set out in our Reconciliation Action Plan, it is important that this recognition leads to industry wide support and understanding of the knowledge, stories, languages and experiences of Aboriginal and Torres Strait Islander peoples, as our way of paying respect, and contributing to, some of the oldest continuous cultures of the world.

Our network and operations span the traditional country of 17 languages, tribal and nation groups in Sydney, the Central Coast and Hunter regions of New South Wales. We want to lead and foster a workforce, and approach to our operations, that embraces the learnings, voices, cultures and histories of these Traditional Owners into our own organisation.



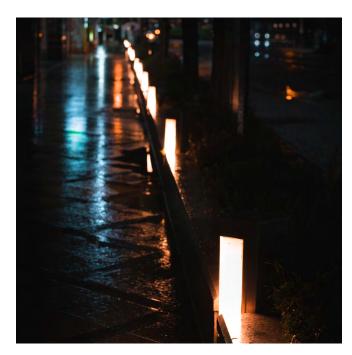
## Our vision is for communities to have the power in a resilient, affordable, net zero future

# Our role in the community

Ausgrid owns and operates the network of substations, powerlines, underground cables and power poles that deliver power to communities across large parts of Greater Sydney, the Central Coast and the Hunter.

Each day we build, operate and maintain this distribution network with a focus on providing a safe, reliable and efficient energy supply.

We also provide a range of other network services to our 1.8 million customers, one of which is basic metering services – the topic of this consultation paper. We provide these metering services to the more than 1.3 million customers who have not yet installed a smart meter.



# The purpose of this consultation paper

Every five years, we submit a proposal to the Australian Energy Regulator (**AER**) setting out our plans for serving our communities in the 5 years ahead, including our planned expenditure and pricing.

We must develop a proposal for the period from 1 July 2024 to 30 June 2029 (2024-29) and submit it to the AER in January 2023. We are currently engaging with our communities on our main "poles and wires" service via our Draft Plan for 2024-29, which we released for consultation on 1 September 2022.

This consultation paper focuses on our basic metering services for 2024-29 and seeks views on how we address potential equity issues that may emerge as we recover fixed metering costs from a declining customer base.

We seek feedback from all those with an interest in the metering services we deliver.

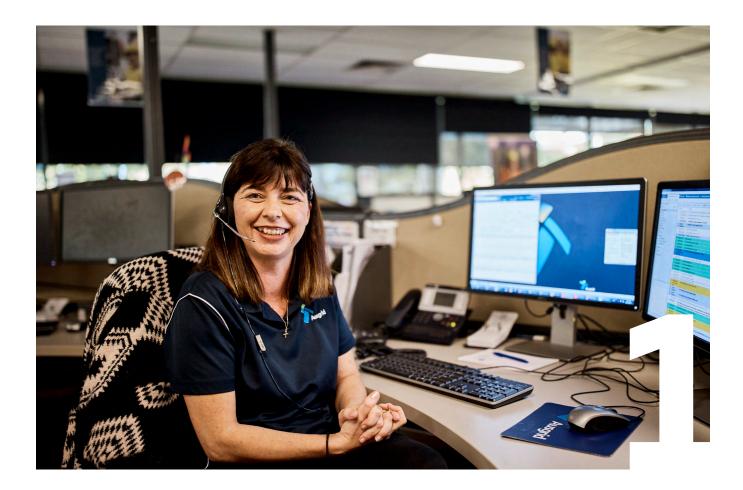
We will use this feedback to update our plans and submit our final proposal to the AER in January 2023.

Information how you can provide your feedback is provided on **page 15**.



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## 1 Introduction

Our next regulatory period begins 1 July 2024 and ends 30 June 2029 (2024-29 period). This is set to be a time of pivotal change in the delivery of metering services.

Ausgrid was once the sole provider of meters in our network area. This changed in 2017 when policy reforms introduced a market-led rollout for all new installations, including the replacement of our existing fleet of basic meters.

We own and operate 'basic' meters while retailers are responsible for rolling out 'advanced' meters. Our meters are 'basic' because they require a person to visit them to take a recording of a customer's energy usage. Advanced meters, which retailers are responsible for, offer greater functionality and do not require a person to visit them to be read. Our evolving role in providing metering services is set out in **Appendix A**.

We expect the market-led rollout of advanced meters to accelerate over the 2024-29 period. As this happens, our legacy role in delivering metering services will decline significantly. Our current forecast suggests that the number of basic meters in our network area will decrease by more than 50%, leaving only 500,000 in use by the end of the period.

This decline will not diminish the importance of our service to those customers who continue to have a basic meter. However, it may raise issues for how we recover the costs of metering services in the 2029-34 period.

Our aim is to continue to provide a safe, reliable and affordable metering service in line with our customers' expectations, while supporting an orderly and efficient transition to advanced metering. The purpose of this consultation paper is to seek our customers' views on how we can best achieve this ambition, both in the 2024–29 period and beyond.

## 1.1 Our role in metering

Ausgrid provides basic metering services to customers in our network area. While customers can switch to an advanced meter through their retailer, many customers still retain their basic Ausgrid meter.

There are currently around 1.3 million basic meters in our network area (as of 1 July 2022). Our prices for these services recover the capital costs we have invested in these meters and supporting systems, and the non-capital costs we incur in reading the meters and managing metering data.

For those customers who have a basic meter, the Australian Energy Regulator (**AER**) sets the price of metering services by assessing the cost of providing the service.



While our metering base is rapidly changing, 78% of our customers have a basic Ausgrid meter, with 22% having an advanced meter. We also provide two types of basic meters: Type 5 and Type 6 (see **Figure 1** for more information about the differences between these meter types). Further detail on our role is set out in **Appendix A**.

**Figure 2** summarises how the arrangements for metering have changed over time. It shows that the key date for these changes was 1 December 2017. Meters installed before that date are generally a basic (Ausgrid) meter, while customers who had a new meter installed after 1 December 2017 typically have an advanced (non-Ausgrid) meter.



Figure 2 The transformation of metering arrangements

Ausgrid provided Type 5/6 meters to customers **Before 30 June 2015** 

Transitional phase, customers paid upfront for their own Type 5/6 meters 1 July 2015 to 1 December 2017

New and replacement advanced meter provided by retailer

After 1 December 2017

Figure 1 Types of meters

Interval meters (Type 5)	These meters are digital. They record electricity consumption over intervals of time (e.g. 30 minutes). They typically require a site visit to download consumption data.
Accumulation (Type 6)	These meters may be electro-mechanical or digital. They only record how much electricity is consumed over time. They require a meter reader to visit a customer's property to obtain the consumption data.
Advanced meters (smart meters)	These meters are digital devices that can measure electricity usage and power quality information on a more granular scale. They can share information wirelessly to energy customers, retailers and distributors, as well as enable other remote services like disconnection and reconnection.

We have been transitioning away from the direct provision of meters, as market reforms to metering have seen our role change.

As customers transition to advanced meter offerings, they cease to receive an Ausgrid-provided regulated metering service. Accordingly, our role in providing metering services is declining as the transition to advanced meters occurs.

Our legacy metering role will continue to diminish over the 2024-29 period. As **Figure 3** shows, we expect the uptake of advanced meters will accelerate over the period – as basic meters reach the end of their useful lifespan and are replaced, and customers switch to advanced meter offerings through their retailer.

While the transition to advanced meters is ongoing, we will continue to play an important, but diminishing, role in providing metering services to customers with traditional meters and supporting the rollout of advanced meters and replacement of legacy metering.

Our focus continues to be on providing cost-effective and reliable metering services to our customers.

#### **AEMC** reforms

While the Power of Choice reforms provided the basis for contestable small customer metering, further reforms are being considered by the Australian Energy Market Commission (**AEMC**) to facilitate the further rollout of advanced meters.

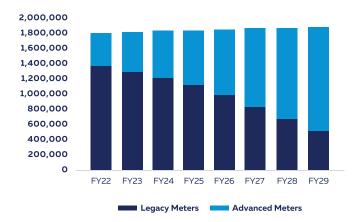
The AEMC is looking to encourage and incentivise retailers to accelerate the replacement of basic meters with advanced installations across the National Electricity Market (**NEM**).

Issues to be addressed by the AEMC as a part of this review include:

- Standardisation of advanced meter data sets that networks use to manage connections, forecasting and demand management;
- Meter replacement issues driven by the customers' current electrical installation, (eg. space, wiring and defects);
- Reviewing roles and responsibilities of participants to support the accelerated installation of advanced meters; and
- Depending on the outcomes of this review, it is possible that our basic meter number will decline faster than our current forecast over the 2024-29 period, leaving an even smaller group of customers receiving our metering services after 2029.

However, regardless of whether this decline is faster or slower than we expect, it will eventually raise issues for the way we recover our residual costs from legacy metering customers. These issues, and our current thinking on how we could address them, are outlined in the next section on fair, efficient pricing.

Figure 3 Actual and Forecast Advanced meter take-up



## 1.3 Community engagement

We are committed to engaging with our communities – including our customers, delivery partners (such as retailers) and other stakeholders – to help us meet their expectations.

This saw us establish a Voice of Community (**VOC**) Panel to inform our 2024-29 regulatory proposal. The VOC Panel was made up of 45 randomly selected household customers across our network who we asked: 'How should Ausgrid look to the future while being fair to today's customers?'

In keeping with the principles set out by the VOC we committed to providing targeted and relevant information to customers as part of our engagement. We are interested in hearing from all voices in the community on a broad range of topics, including our basic metering service.

## 1.4 What does the rest of this paper cover

The rest of this consultation paper explains our current thinking on metering services for 2024–29, and seeks your feedback on:

- Section 2 outlines our proposed approach to pricing and potential equity issues that may emerge in the 2029-34 regulatory period, and how we could respond to these issues;
- Section 3 explains how you can provide feedback on these potential responses, and how we will use your feedback; and
- Appendix A provides further detail on our role in metering and meters on our network.



# 2 Fair, efficient pricing

## 2.1 Our plan for the 2024-2029 period

Our focus for the 2024-29 period continues to be on providing cost-effective metering services for our legacy metering customers.

Maintaining the affordability of our basic metering services is the priority for the forthcoming regulatory period, as declining metering numbers risk driving a potential increase in unit costs.

We intend to maintain our current metering pricing structure and continue to use the 'building block' approach to set our metering prices over this period, in keeping with AER guidance. The following sections outline this price structure and the 'building block' approach, then explain how we expect the key inputs to this approach to change over the period and the resulting indicative metering prices.

## 2.2 Fair metering charges

We seek to be fair in the way that we recover the costs of our metering services from our legacy metering customers. The cost of providing these services are not uniform for all customers because:

- If their meter was installed before 30 June 2015, Ausgrid funded the cost of the meter;
- If their meter was installed after that date, the customer paid for the meter upfront.

To reflect this difference, our current metering pricing includes two charges - a capital charge that reflects the cost of funding the meter, and a non-capital charge which reflects the cost of delivering meter reading, testing and maintenance services.

As Figure 4 shows, we apply these charges so that customers who paid for their own meter upfront via their retailer only pay the non-capital charge, while customers with an Ausgrid-funded meter may pay both charges.

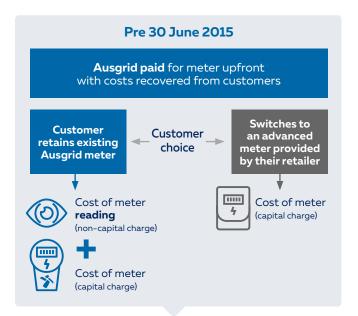
## 2.3 Building block costs

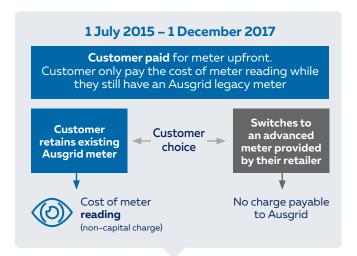
Our metering services are regulated via a price-cap. The AER sets the maximum prices we can charge to ensure we can earn just enough revenue to recover the costs of providing our legacy metering services. This revenue amount is calculated using a 'building block' approach and the AER's standardised models for metering services. This 'building block' approach involves calculating and adding the individual cost inputs or 'blocks' (see Figure 5).

Once the building blocks have been developed, the revenue required to provide metering services is then forecast to reflect declines in meter numbers and any increase in the unit cost of providing metering services. In developing our prices, we receive a regulated return on our regulated asset base, an allowance for tax and depreciation.

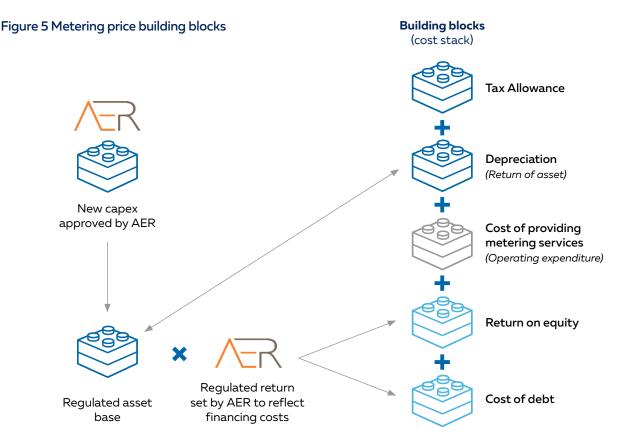
Further detail on key building blocks is set out below. These inputs, and how we expect them to change over the period, are explained below.

Figure 4 Applying Metering Charges









## Direct capital expenditure

Direct capital expenditure (**capex**) includes the costs of investing in new assets to provide metering services. Since July 2019, we have not had any direct capex for Type 5 and 6 metering. However, for the 2024–29 period this is likely to change, as investments to maintain metering information systems become necessary.

### Indirect capital expenditure

We continue to incur indirect capex in the delivery of metering services. This indirect capex reflects the allocation of costs via our cost allocation methodology (CAM).

Indirect capex relates to the costs of assets (such as depots and fleet vehicles) used in delivering many services, including metering services. A portion of the funding costs associated with these assets will be allocated to metering services in 2024–29.

## **Operating expenditure**

This building block reflects the operating expenditure (opex) associated with providing metering services over the 2024-29 period. Most of these costs are associated with performing meter reading activities. However, some relate to testing and maintaining meters to ensure compliance with national energy rules, and the processing of metering data.

We expect our opex to increase on a per customer basis over the 2024-29 period due to diseconomies of scale. That is, as the total number of basic meters in our network area declines, the unit costs of performing meter reading activities – particularly the costs associated with travelling to the meter – will increase.

Once the building block costs are developed, prices are set by applying the AER's standardised models for ACS metering services. These models include:

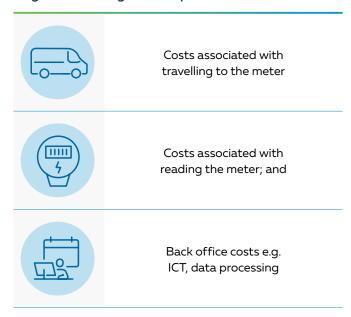
- Standardised Metering Capex and Opex Model;
- Standardised Metering Pricing Model;
- Roll-Forward Model (RFM); and
- Post-Tax Revenue Model (PTRM).

## 2.4 Diseconomies of scale

Legacy meters within our network have been declining over time. As the overall number of meters decline, the unit costs for providing metering services rises (known as diseconomies of scale).

This is because when performing meter reading activities there are several types of costs incurred as set out in Figure 6.

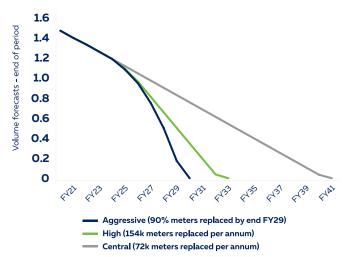
Figure 6 Metering cost components



For example, the costs associated with maintaining metering systems, whether we have 1 million or 100,000 meters are largely fixed and remain fairly constant over time. As meter numbers fall, distance between meters increases, and these costs may increase in per meter terms. The increase in unit costs associated with the decline in legacy meters is estimated and then applied to adjust our opex.

Over the forthcoming regulatory period we are forecasting that our basic meter population will decline by close to 800,000 meters, representing a reduction representing a reduction of more than 50%. This is reflected in Figure 7 below.

Figure 7 Forecast Type 5/6 replacements



## 2.5 Developing prices for the forthcoming regulatory period 2024-29

## Overall metering prices will continue to fall

We expect our overall metering price to decrease in the first year of the 2024-29 period and continue to fall over the period. This is because the capital charge will decline as the metering asset base decreases. Our current forecasts indicate that for customers on residential non time-of-use (non TOU) tariffs, the capital charge will:

- Decline by 24% in 2024-25;
- Be set at a very low level or zero in 2028-29, when the value of our metering asset base will be almost fully depreciated.

However, the non-capital charge will increase over the period, due to the diseconomies of scale discussed in the previous section.

Figure 8 shows our current metering prices for a sample of tariffs, compared to the indicative prices in the first year of the 2024-29 period.

Figure 8 Indicative prices \$ nominal

Tariff	Tariff Name	Component	\$FY24	\$ FY25	% change
EA010	Res Non ToU	Non capital	12.60	13.68	9%
EA010	Res Non ToU	Capital	15.29	11.59	-24%
EA010	Res Non ToU	Total	27.90	25.27	-9%
EA025	Res ToU	Non capital	32.57	35.36	9%
EA025	Res ToU	Capital	17.03	12.90	-24%
EA025	Res ToU	Total	49.60	48.26	-3%
EA050	Small Bus Non ToU	Non capital	13.00	14.11	9%
EA050	Small Bus Non ToU	Capital	23.38	17.72	-24%
EA050	Small Bus Non ToU	Total	36.39	31.84	-13%
EA225	Small Business ToU	Non capital	32.27	35.03	9%
EA225	Small Business ToU	Capital	16.25	12.31	-24%
EA225	Small Business ToU	Total	48.52	47.35	-2%

## 2.6 Legacy meter customers and residual capital recovery

As previous sections have noted, the number of basic meters is expected to decline over the 2024-29 period. The rate of decline is difficult to predict, as it will be influenced by the outcomes of the AEMC's ongoing review of the metering regulatory framework.

However, regardless of this rate, there will eventually be only a small group of customers on basic meters in our network area. These customers may not switch to an advanced meter until their meter fails or may face other barriers to switching such as the cost involved or lack of knowledge about the offers available.

If we maintain our current pricing approach, this will make it difficult to set fair and affordable prices for these customers.

While we are not expecting these affordability issues to become significant until after the 2024-29 period, we are considering options to address them now, to facilitate an orderly transition to smart meters. We are seeking feedback from our communities on how and when we should address these issues.

## 2.7 Options for addressing equity issues

In developing potential options for addressing equity issues, we have considered the guidance on fairness articulated by the Voice of Community Panel. In our engagement on our Draft Plan for 2024-29, this panel stated that they understand fairness to mean:

"The cost of the service is spread throughout the network to share the financial load evenly regardless of the basic cost."

There are two cost categories for which a smaller set of customers may be required to pay an increasingly larger share, as more customers leave our legacy metering service. These are, first, our fixed operating costs which do not vary regardless of how many metering customers we have and, second, indirect capital costs (property, ICT, fleet) which are allocated to our metering line of business in accordance with our AER-approved cost allocation methodology.

In line with the Voice of Community Panel's views, we have identified two options that would help spread the financial load of our declining metering business more evenly. We could:



Classify legacy metering as a standard control service at the start of the 2029-34 period. This would involve adding the recovery of metering opex and indirect capex to general network charges from FY30 onwards; or



## Expense any capital expenditure incurred over the course of the 2024-29 period.

This would involve the immediate recovery of indirect capex in the 2024-29 period when the number of metering customers is still large enough to not materially impact price.

If the first option is pursued the remaining metering asset base will be recovered from all Ausgrid customers, noting that impact on bills is likely to be small. While the financial impact of sharing the cost across many customers is likely to be limited, it may be unfair to expect customers to fund legacy costs associated with metering equipment they do not use.

The second option would involve Ausgrid expensing, and therefore recovering any, capex incurred over the 2024–29 period. This would bring forward the recovery of this expenditure and limit the potential for it to disproportionately fall on a small number of customers as our meter population declines. However, it would not solve the issue that a small number of customers would face significant opex costs from the 2029–34 period onwards.

## When should we act to address equity issues?

As previously noted, we do not expect affordability to become a significant issue until after 2029. But this issue may emerge in the 2024-29 period, depending on the outcomes of the AEMC's review and the pace of meter replacement. For this reason, we are considering setting a trigger for taking action. For example, if we were to adopt the first option outlined above, we could adopt a threshold based on:

- Prices that is, when the total charge goes over a certain level, the metering asset base is rolled into the RAB in the subsequent regulatory period e.g. an increase of 50%;
- Asset base value that is, when the metering asset base falls to a specified value, it is rolled into the RAB in the subsequent regulatory period e.g. it falls below \$10 million;
- **Customer numbers** for example, when the number of legacy metering customers falls below a specific level e.g. 100,000, the metering asset base is rolled into the RAB in the subsequent regulatory period.





# 3 Providing feedback on this paper

We welcome written feedback to this document by 7 October 2022. We will also schedule a forum to discuss and share feedback in September and October 2022.

Over the forthcoming regulatory period the number of customers receiving metering services from Ausgrid is forecast to materially decline. This may have equity impacts on those customers who continue to use legacy meters.

## 3.1 Consultation questions

#### **Consultation question 1:**

 Should Ausgrid take action to address emerging equity issues arising from the recovery of metering costs?

### **Consultation question 2:**

• If so, how should we address these issues?

## **Consultation question 3:**

- And at what point should we address these issues?
  - When the number of legacy customers falls below a specific level?
  - When the decline in metering customers results in prices increasing above a specific level?
  - When the value of the underlying Metering Asset Base falls below a specific value?

## 3.2 How we will use your feedback

We will incorporate customer feedback into our approach to addressing the issue of declining meter numbers, including the definition of any potential threshold for taking action to mitigate any adverse cost implications on legacy customers. Customer feedback will also shape any approach to addressing this issue and any action we might take to address it.

**Figure 9** sets out the timetable our 2024-29 regulatory reset. **Figure 10** outlines how you can find out more and share your views on this paper.

Figure 9 Regulatory proposal timeline

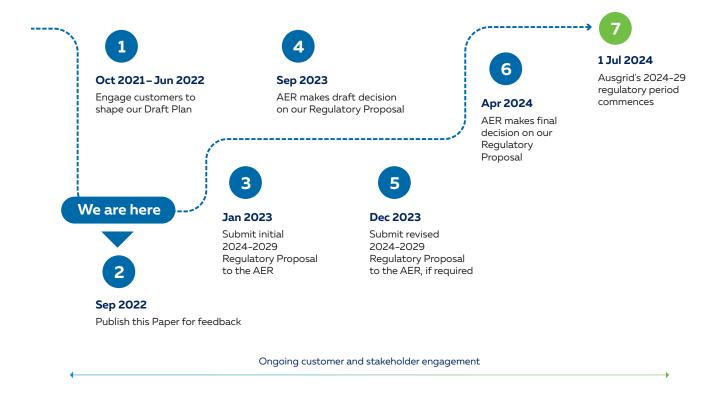


Figure 10 Opportunities to find out more and share your views on our Metering consultation paper



## **Commercial and industrial customers:**

• Visit YourSay/large-business-customers to submit your feedback



#### Household or small business customers:

- Visit YourSay/households or YourSay/small-business to submit your feedback
- Play our 'Be the Boss' game to let us know how you would get the balance right if you were the boss of Ausgrid



#### **Retailers:**

- Register for our forum at 9am on 20 September 2022
- Visit YourSay/retailers to submit your feedback
- Visit our dedicated retailer webpage <u>Ausgrid.com.au/retailers</u>



## Ausgrid is an initial metering coordinator

Following the implementation of the AEMC's reforms in December 2017, Ausgrid was appointed an initial Metering Coordinator (MC). As an initial MC, we are responsible for acting as the metering coordinator for our legacy metering customer base.

This means we continue to arrange for the reading, testing and maintenance services for meters owned by Ausgrid. This includes meters installed by Ausgrid, our agents or predecessor organisations.

When a customer's legacy meter is replaced by advanced meters, we cease to be their MC and they will transition to an MC appointed by the customer's retailer.

## What is a metering coordinator?

An MC is a person appointed under the National Electricity Rules who coordinates the provision of metering services at a connection point. An MC must be appointed for every connection point so that all customers have access to a metering service.

## What is the role of the metering coordinator?

MCs are responsible for the appointment of appropriately accredited metering service providers to conduct the following tasks:

- Provision, installation and maintenance of a metering installation;
- · Collection, processing, retention and delivery of metering data; and
- Management of access to and security of the metering installation.

## What is the role of retailers in providing metering services?

For residential and small business customers with an advanced meter, their energy retailer is responsible for appointing their MC. The MC is then responsible for appointing an accredited service provider who will provide, install and maintain their meter, as well as arrange for the collection of metering data and managing access to the meter. These responsibilities are summarized in the Figure 11 below.

Figure 11 Responsibilities of Ausgrid and retailers

Activity	Ausgrid	Retailer
Installation of new metering equipment	X	<b>V</b>
Remote meter reading of advanced meters	X	<b>V</b>
Manual meter reading of legacy accumulation and interval meters	<b>V</b>	X
Testing of advanced meters	X	<b>V</b>
Testing of legacy accumulation and interval meters	<b>V</b>	X
Replacement of non-compliant or faulty meters and interval meters	X	<b>V</b>
Replacement of non-compliant or faulty advanced meters	X	<b>V</b>
Metering upgrades e.g. new solar installation	X	<b>V</b>

## Meters on our network

## **Types of meters**

There are typically three different types of meters on our network – accumulation meters, interval meters and advanced meters.







#### 1. Accumulation meters

Accumulation meters are meters that keep track of total electricity usage. This means that customers who have these meters are charged the same amount for the electricity that they use, regardless of when they use it.

They are also known as flat rate meters or Type 6.

Accumulation meters may be digital or electro-mechanical. Digital accumulation meters have a digital display. Electro-mechanical accumulation meters may either have a dial display or a cyclometer display.

To read an accumulation meter, the meter reader will sight the meter and type it in to their handheld computer, that then sends the data directly to our systems. The reading is then validated and sent on to a customer's retailer to allow them to calculate a customer's bill.

#### 2. Interval meters

Interval meters record how much electricity is used every 30 minutes. This means that different electricity rates for usage can be applied for different times of the day, depending on the tariff that a customer has signed up to with their electricity retailer.

Interval meters are also known as time of use meters or Type 5 meters.

All interval meters are digital. The display of an interval meter is programmed to show the date and time as well as the total kilowatt hours (kWh) used.

To read an interval meter, the meter reader uses an optical probe to download the 30-minute interval data into a handheld computer. This information is then sent to our systems, validated and then sent on to a customer's retailer to allow them to calculate a customer's bill.

#### 3. Advanced meters

Advanced meters, also known as smart meters, are remotely read by the retailer appointed as the customer's metering data provider. They record a customer's energy use in the same way as interval meters, that is, based on how much energy is used every 5 or 30 minutes (depending on when they were installed).

Advanced meters have many benefits for the customer and for the energy system as a whole. For example, customers with an advanced meter can take up pricing offers that give them more power to control their electricity bills by being flexible about when they use electricity or a specific electrical appliance. They also help customers and the energy system realise the value from new technologies like rooftop solar, battery solar and energy efficient appliances.

Since 1 December 2017, any new or replacement meters for households or small business must be smart meters, installed by a provider appointed by an electricity retailer, not Ausgrid. For further information regarding the other functions and services provided by smart meters, customers should contact their retailer.



## **Contact us**

For more information, or to make a submission go to: YourSay.Ausgrid.com.au