



12 February 2010

Dr John Tamblyn
Chairman
Australian Energy Market Commission
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Dear Dr Tamblyn

ENA submission—EPR0018: Draft Statement of Approach—Request for Advice on Cost Recovery for Mandated Smart Metering Infrastructure

The Energy Networks Association (ENA) welcomes the opportunity to provide comments on the *Draft Statement of Approach—Request for Advice on Cost Recovery for Mandated Smart Metering Infrastructure*.

Key Messages:

1. The ENA endorses the response submitted by the National Stakeholder Steering Committee.
2. Smart Metering investments will be integrated with other forms of network investment and therefore belong in the economic regulatory framework of Chapter 6 of the National Electricity Rules and separate from technical and operational aspects of smart metering in Chapter 7.
3. The objective of the review should be to put in place a framework to foster innovation and efficiency and to foster the right incentives to provide investment certainty for distribution network providers (DNSPs).

Background

ENA is the peak national body for Australia's energy networks which provide the vital link between gas and electricity producers and consumers. ENA represents gas distribution and electricity network businesses on economic, technical and safety regulation and national energy policy issues.

Energy network businesses deliver electricity and gas to over 13.5 million customers, employ more than 40 000 people and contribute approximately 1.25 per cent to Australia's gross domestic product. Energy is delivered across Australia through approximately 48 000 kilometres of transmission lines, 800 000 kilometres of electricity distribution lines and 81 000 kilometres of gas distribution pipelines. Energy network businesses are valued at over \$60 billion and annually undertake an average investment of approximately \$6 billion in network operations, reinforcement, expansions and greenfields extensions.

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High level comments

ENA has sought responses from its members which form the basis of this high level submission. In addition, some ENA members have provided their own submissions direct to the AEMC. The comments are necessarily high level as the Draft Statement of Approach is the initial phase in preparation of the advice to the Ministerial Council on Energy.

Smart Metering Infrastructure (SMI) is increasingly understood to be the foundation for, or at least a key component of, the smart grid—an information and communication technology-infused vision of tomorrow's electricity network. SMI and the smart grid should therefore be understood as a business-as-usual decision making activity for electricity distribution networks, however with a number of important commercial and regulatory issues that will need to be addressed in time:

- periodic policy and/or regulatory interventions to accelerate selected benefits
- shorter lifecycles for more assets, driven by technological obsolescence
- greater competition and long-term risk of asset stranding from new technology
- additional investment required to enable distributed generation and active customers
- new network services to support future decentralised energy markets, and
- short-term need for targeted incentives to bridge the 'risk gap' of smart grid technologies.

As virtually all distribution network investment will become more technologically advanced over time, the ENA membership believes that Chapter 6 should remain the basis for regulatory decision making, including SMI.

The Australian Energy Market Commission's (AEMC) approach should therefore consider the specifics of SMI/smart grid investments in addition to the issues related to SMI-related service types, contestability and pass-through scenarios. The key question that the AEMC should be addressing in each case is: *What is special about SMI investment under these conditions that makes the current regulatory framework unsuitable?*

Consideration should be given to the suitability of the Victorian approach under the Advanced Metering Infrastructure Order in Council (2008) particularly its methodology towards accelerated depreciation of old assets and also the recognition of the transitional provisions concerning the treatment of metering assets post 2016.

Finally, a key outcome of the AEMC's review should be to reinforce regime stability and continuity to foster the right incentives for DNSPs to make higher risk investments.

We will contact you in due course to arrange a meeting to discuss this submission in more detail. If you have any questions in the meantime please contact Jim Bain at jbain@ena.asn.au or 02 6272 1516.

Yours sincerely



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