SP AusNet Submission
ESC Regulatory Review
- Smart Meters
Draft Decision

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SP AusNet
A member of Singapore Power Group

About SP AusNet

SP AusNet is a major energy network business that owns and operates key regulated electricity transmission and electricity and gas distribution assets located in Victoria, Australia. These assets include:

- A 6,574 kilometre electricity transmission network indirectly servicing all electricity consumers across Victoria;
- An electricity distribution network delivering electricity to approximately 575,000 customer connection points in an area of more than 80,000 square kilometres of eastern Victoria; and
- A gas distribution network delivering gas to approximately 504,000 customer supply points in an area of more than 60,000 square kilometres in central and western Victoria.

SP AusNet's purpose is to provide our customers with superior network and energy solutions. The SP AusNet corporate values are :

- Safety: is our way of life. Protect and respect our people and our community.
- Passion: to bring energy and excitement to what we do. Be innovative by continually applying creative solutions to problems.
- Teamwork: to support, respect and trust each other. Continually learn and share ideas and knowledge.
- Integrity: to act with honesty and to practise the highest ethical standards.
- Excellence: to take pride and ownership in what we do. Deliver results and continually strive for the highest quality.

For more information visit: www.sp-ausnet.com.au

Contact

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The following provides SP AusNet's comments and concerns regarding each of the decisions in the Commission's Draft Decision paper on the Regulatory Review – Smart Meters.

We have reproduced below the summaries from Section 2 of the paper to provide context for our submission comments which are shown in green shaded text.

1. Assisting vulnerable customers (section 3)

For customers in retailers' hardship programs on a smart meter tariff, retailers will be required to:

- Agree with participants the most cost-effective tariff based on their behaviour and circumstances known at the time of entry to the program
- Monitor participants' behaviour and consumption during the program to ensure that they continue on the most cost-effective tariff and facilitate a change if necessary
- Not offer supply capacity control products until 31 December 2013.

These obligations will be included in Guideline No 21: Energy Industry – Energy Retailers' Financial Hardship Policies.

These amendments will take effect from 1 January 2011 as they involve minimal process and system changes.

SP AusNet have no specific comment regarding the desirability or complexities of this retailer obligation. However we would be concerned if the tariff changes which the retailer was obliged to make for a hardship customer under this proposed amendment, forced a subsequent change to the distributor tariff.

Whilst retailers can construct tariffs which are not related to the customer's assigned network tariff, most retailers' tariffs do have a relationship to the network tariff because of the impact the network tariff has on the retailers' overall costs. A retailer tariff change made under this amendment could well leave the retailer tariff misaligned to the customer's assigned network tariff. However for the distributor to be under an obligation to also change their tariff would appear to be administratively very complicated and SP AusNet seek to ensure that this is not the case.

2. Verifying the accuracy of the bill (section 4.2.1)

Clause 4.2 of the Energy Retail Code will be amended so that the following is shown on all customers' bills derived from interval data14:

- the total accumulated consumption reading corresponding to the end of the billing period
- the consumption by tariff segment, the actual tariffs and total consumption for the period.

As raised in our initial response we consider that terminology will be important in ensuring that customers develop an understanding of the change to the billing approach and the information which will accompany large scale interval metering data billing. We consider that use of the term "total accumulated consumption data" could lead to confusion as the term will be very close to "total aggregated interval data" or "total consumption" which will of course be the basis of the customers' billing. SP AusNet consider that the term "index read" better describes the value which will be shown on their bill under this proposed amendment, and is less likely to be confused with the interval data term.

3. Estimated and substituted data on bills (section 4.2.2)

Clause 5 of the Energy Retail Code will be amended so that:

- retailers must indicate that the bill is estimated when more than 5 per cent of the interval metering data that is used to determine the billed energy consumption are not actual readings from the smart meter
- when any interval metering data from a smart meter is required to be substituted to determine the energy consumption in the bill, the retailer must either:

  (a) indicate on the bill that the bill is substituted and the extent of the substitutes; or

  (b) not charge in the bill for energy consumption for each interval that is substituted.

The Commission currently collects data on the number and proportion of estimated bills issued by retailers. The performance indicators will be expanded to include the number and proportion of bills issued with substituted data.

SP AusNet are concerned that the threshold figures proposed risk placing undue customer attention on estimates and substitutes. SP AusNet consider that rightly the industry should be held to task if the level of estimates and substitutes are unsatisfactorily high after smart meters are installed. SP AusNet have commented below on the regulatory monitoring regime for this. However unnecessarily notifying customers in order for them to put pressure on industry as part of a compliance approach is not good practice.

Customers should only be notified of estimates and substitutes when they can reasonably carry our actions to better align their bills with their actual consumption. To notify them when there is no action that they can take (except ring the retailer!) will increase overall customer costs due to increased call centre involvement without a corresponding increase in data accuracy, and unnecessarily reduce customer confidence in market metering data.

SP AusNet made the following comments in our previous submission

> (i) Substitutions not final substitutions (ie “Estimates” in the terminology to be used on bills)
>
> Where the substitution is not a final substitution, the substitute data will generally be overwritten by actual data from the meter. The ultimate impact on the customer will not in this case be the difference between the substitute data and the actual data ultimately obtained, but rather just the cash flow cost (the interest) on the difference. This will generally be a very small amount given the normally small size of any difference and the short time period involved.[1]
>
> Hence for a non-final substitute there is some argument for the customer to be not informed, as providing this detail is likely to raise a level of customer comments and dispute which will increase total industry costs to the financial detriment of all customers, for a situation which is more than likely to be rectified in the next bill.
>
> (ii) final substitutions (ie “Substitutes” in the terminology to be used on bills)
>
> If the final substitute data is only a small number of intervals (as might result from interference eg a voltage spike) then there is little way that the customer can legitimately contribute to the improvement of the accuracy of the resulting substitution. This is very much a ‘mechanical” Metrology Procedure defined process which fills the

[1] The Victorian smart meters provide the full 220 days of storage required to qualify as a type 5 meter and when in operation as a smart meter with daily reading it is extremely unlikely that data will be permanently lost unless there is a catastrophic failure of the meter (destroyed, stolen).

gap in actual data. Note that in a monthly bill with 1440 intervals (48 per day over 30 days) each interval represents less than 0.01% of the overall bill period.

If the substitute data represents a full day or more (or a substantial part of a single day) it could be argued that in this case the customer may realistically contribute to improving the quality of a substitution. Note that in a monthly bill each day represents 3.3% of the total intervals covered by the bill. For example: a customer who is not in residence for a whole day and as a result consumption that day was very low, could therefore legitimately be given the opportunity to dispute an estimate which, whilst compliant with the Metrology Procedure, was based on a "like day" where the customer was home and consuming.

Hence a reasonable rule might be that a customer should be informed if a whole day or more of data is substituted (or alternatively this period could be reduced to say 12 hours to give the customer the opportunity to dispute substitutions which embrace the major consumption period).

SP AusNet still consider that the approach detailed in that submission, based on providing customers with details only where they can reasonably impact outcomes, is a sound one.

The Commission will recommend to the Australian Energy Regulator (AER) that the extent to which the distributors substitute data in the interval data provided to the retailers is also monitored.

There is already a regulatory body (AEMO) responsible for the monitoring of practices and performance associated with metering data as defined in the National Electricity Rules and the subsidiary Procedures. The enforcement regime for these practices and performance measures is through the service provider accreditation and registration regime, and ultimately through the AER enforcement mechanisms. SP AusNet consider that the AEMO accreditation and ongoing audit processes, although largely focussed on market data delivery and the quality and completeness of this market data, provides a reasonable level of confidence that DNSPs (through their nominated service providers) have rigorous data systems and processes in place.

SP AusNet considers that if enhanced monitoring of data to retailers is considered necessary, then giving consideration to enhancing the AEMO regime rather than giving the AER an overlapping metrology performance monitoring role would be preferable.

The Victorian AMI rollout Service Level Specification provides very tight performance obligations for data delivery which will be applicable from 1 January 2012. These are:

- 95% actual data by 6am the day after the consumption day,
- 99% actual data by 6 am the following day , and
- 99.9% actual data within 10 business days

Although not explicitly agreed, the expectation would be that these service obligations or similar will be mirrored in the national smart meter program outcomes and become the basis of national smart meter metrology. Currently the service levels which are in place in the Metrology Procedure are based on high level aggregated energy values rather than on individual customer measures. However it would be appropriate for the national Smart meter program rather than the AER to consider the metrology measure to be applied to retailer metering data. This would become part of the national Metrology Procedure and therefore become part of the AEMO regime. SP AusNet consider that this is the most effective path to achieve the ESC desired outcome of the monitoring of retailer data completeness levels.

Currently retailers are allowed to recover between 9-12 months of undercharging. When smart meters are more fully operational and monthly billing of customers more prevalent, the Commission will review clause 6.2 of the Energy Retail Code to determine if a shorter period should be introduced.

The distributor recover timeframe for undercharging is based on the retailer's ability to in turn recover the additional costs from their customer. SP AusNet would be concerned if the future Commission review changed the current timeframes. Many customers have a significant seasonal variation in their electricity bills and where there are meter data issues, many are not detected by the retailer or distributor, or the customer, until the corresponding season the next year when the bill comparison reveals obvious differences. These issues, which occur despite all reasonable endeavours by the distributor to avoid them, will not be obvious in a percentage of cases over three months of low consumption following a peak loading season, and will not be revealed clearly until the next equivalent peak season.

4. Graphical information on the bill (section 4.3.1)

Clause 4.4 of the Energy Retail Code will be amended to include the requirement that retailers show on the consumption graph for customers with smart meter tariffs:

- The customer's consumption for each monthly period over the past 12 months; and
- the average daily cost for each smart meter tariff component over the billing period.

No SP AusNet comment.

5. Unbundling charges and tariffs on the bill (section 4.3.2)

We will retain the current requirement that it is the retailer's decision as to whether to show the network charges on the bill.

That is, under clause 4.2(i) of the Energy Retail Code, if the retailer directly passes through a network charge to the customer, the separate amount of the network charge must be shown on the bill. This charge must replicate the regulated charge.

SP AusNet has some concerns regarding the situation where a retailer does not "directly pass through" the distributor charge (ie has an all embracing retail tariff and hence bill), but nevertheless quotes the distributor bill amount or a component of the bill, on their customer bills possibly as a mechanism to provide customers with details of costs which are out of the retailer's control. If this quoted amount is inaccurate or poorly described then the retailer's customers will get a distorted view of the relative retailer and distributor costs.

SP AusNet considers that irrespective of whether such a distributor charge is being directly passed through, or just for customer information, it must be shown accurately.

6. Notification of tariff variations (section 4.3.3)

Clause 26.4(b) of the Energy Retail Code will be amended to require retailers to notify the customer of any variation to the retailer's tariffs at least one month prior to the date of effect. This notification must be separate to the customer's bill. The notification will apply to existing tariffs and any new smart meter tariffs.

Clause 9.8 of the default Use of System Agreement will be redrafted to ensure that the distributors advise the retailers of the network tariff changes in a timely manner, so that the retailers can meet their new obligations.

There are a number of scenarios where the distribution tariff (tariff structure and/or tariff rate) associated with an installation may change:

i. Annual tariff change as recognised in the then current price review (EDPR) and as endorsed by the AER

ii. NMI specific change because of an incorrectly assigned tariff or a change of installation configuration and/or usage and/or load.

iii. Due to an AMI meter exchange associated with the AMI rollout program

iv. As a result of a customer request to change tariff (may require a meter change)

These changes to distribution tariff may or may not produce a related change to the customer's retail tariff. Our best interpretation of the Draft Decision is that the requirement for the advanced notification to the customer of a retailer tariff change, and the associated requirement for advanced notice by the distributor of network tariff changes, is proposed to apply for all tariff changes, not just those associated with the AMI rollout program.

On this basis SP AusNet make the following comments:

i. The current timetable for the development and submitting, consultation, and AER endorsement of the annual tariff changes does not readily support the notification timeframes proposed by the Commission. Factors such as the release date of annual CPI figures, comment windows, AER consideration windows, etc, currently dictate a time schedule for these tariff changes which could not encompass the proposed additional more than four weeks for distributor notice of tariff changes (following the AER determination), and the customer consideration of the retailers' tariff response to these network tariff changes. The current AER endorsement of network tariff is not given until after the middle of December each year! Further the annual tariff change applies from the 1 January and to do otherwise in order to achieve more time for customer consideration would distort the annual revenue expected by the distributor under the tariffs.

   Significant consideration by the AER and industry would be required of changes to the current annual tariff change process to achieve the timeframes for customer consideration outlined in the Commission's Draft Decision. SP AusNet consider that as this has a number of difficulties, that this is a longer term project and the scope of the current Commission regulatory decision should be limited to AMI rollout associated tariff changes.

ii. Where the customers tariff has been incorrectly assigned, or customer has requested a tariff change, then the concept of a tariff change delay to notify the customer would appear to be inappropriate.

iii. We understand and accept the government's concerns regarding tariff change impacts on customers with restricted ability to respond. However we also recognise that a key outcome and benefit driver of the AMI Rollout is to incentivise customers to modify their consumption behaviour based on tariff regimes which reflect the real industry costs. Following a customer having an AMI meter exchange the quicker these cost reflective tariffs are applied, the earlier that the incentives for change are put to customers. And where the customer directly benefits from the tariff regime, the earlier the customer can take advantage. The tariff change process should therefore have as one of its key drivers the minimisation of lead time for a tariff change.

   We consider therefore that if the customer is to be given a chance to respond that the time given should be as short as possible, as should be the time for consideration of their tariff change by the retailer. We note that the concept of a tariff mapping table, aligning new AMI tariffs with the old pre-AMI tariffs, is part of the AMI Process Model and hence Retailers can pre-plan their tariff response for each current distributor tariff.

7. Shopping around for a better offer (section 4.4)

The Commission will commence a review of Guideline No 19: Energy Industry – Price and Product Disclosure in January 2011, taking into account the smart meter tariffs that are likely to be offered to customers and the work being undertaken by the AER.

No SP AusNet comment.

8. Enabling access to billing and metering data (section 5)

The provision of historical billing data will continue to be regulated under clause 27 of the Energy Retail Code.

Retailers should provide metering data to existing (and former) customers. Clause 27 will be amended in the Energy Retail Code to enable customers to access their metering data as follows:

- if requested by a customer with a smart meter, retailers will be required to provide the interval data electronically, or by some other form, in a way which makes the information understandable and accessible to the customer.
- retain and provide this information to existing and former customers with the same obligations as under clause 27.2 of the Code.

In connection with In Home Displays (IHDs), the Commission will incorporate new provisions in the relevant regulations to require:

- both retailers and distributors to establish a set of privacy principles for the dissemination of consumption information through IHDs, before they are utilised;
- retailers, in providing IHDs to their customers, to provide information to the customers setting out how the consumption and cost information displayed on the IHD compares to the consumption and cost details on the customer's bill.

SP AusNet agree that the potential use in the future of IHDs (and a number of related issues regarding the broader matters of security, HAN use of data from meters, and for customer load switching, etc) will require the establishment of principles and procedures not only for privacy issues, but also issues of security, consent, etc.

The National Smart Meter Program (NSMP) has recognised these issues and is proposing that these issues be covered at a high level by what is currently termed a Communications and Security Protocol, and in more detail covered by HAN standards and HAN procedures.

Although SP AusNet have no fundamental issues with the Commission's proposal to require certain prerequisites before IHDs are utilised, we consider that the obligation needs to be carefully worded to ensure that it does not place obligations on participants which will possibly be inconsistent with the broad industry approach ultimately adopted as a result of the NSMP considerations. For example no specific Victorian regulatory action would be require if the IHD arrangements including privacy matters were incorporated in a national Procedure with which the distributor would have to comply under their NEM obligations.

9. Facilitating prompt connection, disconnection and reconnection (section 6.1)

Amend the relevant clauses of the Energy Retail Code and the Electricity Distribution Code to:

- require that where a remote connection, disconnection or reconnection is to be carried out, that the distributor uses its best endeavours to perform the services within two hours of a valid request from a retailer or customer; and

- clarify the drafting of the terms for connection and energisation, taking into account smart meters to remove any ambiguity.

The Victorian AMI Services Level Specification (SLS) obliges distributors to use best endeavours to perform re-energisation and de-energisation services remotely. This outcome provides immediate customer benefits of reduced costs for these services. However it was recognised by the government and the industry that any attempt to change the timing requirements for these services would involve detailed consideration by the industry of the associated processes as defined in the national B2B Procedures. Consistent with the broad approach which was the basis of the move to a core services only type rollout in Victoria, this requirement for national process changes was considered a rollout project timeline risk. The SLS therefore obliges the distributor to meet only the current timing obligations for re-energisation and de-energisation service as set out in the Electricity Distribution Code (EDC) (and as reproduced in the Review Draft Decision paper).

The current Victorian industry Process Model document recognises this regulatory model as its basis. The SP AusNet system design and build, and presumably all other industry builds, are based on this Process Model. Hence as the Process Model does not recognise time based re-energisation and de-energisation service orders, nor include any of the associated process and business rule matters, the SP AusNet business logic goes no further than supporting the current EDC rules. Further the Process Model recognises some restrictions and constraints on switching times to avoid the AMI meter communications peak loading period after midnight (for metering data collection), and also requires the distributor to carry out re-energisations early in the morning to limit public exposure to potential electric shock. Any attempt to apply more specific timing obligations would need to take these same considerations into account.

The consideration of business requirements and of the resulting process model for more complicated time frame rules is currently part of the process design work under the MCE's National Smart Meter Program (NSMP). Under the concept of the Victorian core services rollout this was the envisaged approach to developing changes to the national procedures to ensure that ultimately a nationally consistent process was applied.

It should also be noted that currently by far the greatest proportion of customers when preparing for a move-in to a premises recognise the need to arrange re-energisation, and therefore request this next day or a longer period ahead. This is not necessarily to suggest that advantage cannot be made of the enhanced timing capability of Smart meters for those customers with more detailed requirements, however there is no specific indication of any customers being disadvantaged by the current longer re-energisation and de-energisation windows other than minor extra energy costs.

The approach therefore should be to retain the current re-energisation and de-energisation timing and allow the NSMP to develop the processes and business rules for quicker and/or more explicit timing of these services.

10. Customer protection under disconnection (section 6.2)

Clause 13.1 of the Energy Retail Code will be amended to require retailers to state on all disconnection warnings that the disconnection could occur remotely.

Clause 13.2 of Energy Retail Code will be amended so that, prior to disconnecting customers in hardship who are to be disconnected remotely, retailers must also contact the customer in person or by telephone, or in extenuating circumstances, by mail. This communication must set out all the options for the customer.

SP AusNet and other distributors have obligations and rights with respect to disconnecting customers for network related reasons. Except in emergency situations distributors are required to interact with the customer in a defined manner before carrying out these

disconnections. SP AusNet will ensure that where there is potential for a remote disconnection that the customer is made aware of that in these interactions. However SP AusNet considers that the customer interaction process is already quite rigorous and that it would seem unnecessary for the distributor to take extra steps for customers in hardship. Further the distributor currently has no specific and formal knowledge of whether a customer is in hardship.

SP AusNet seek confirmation that the distributor obligations regarding disconnection notification will remain unchanged.

11. Information to new customers after remote disconnection (section 6.3)

Clause 9.1.13 of the Electricity Distribution Code will be amended to require distributors to include a sticker on all smart meters installed in customers' premises from 1 January 2011. This sticker must include the relevant distributor's call centre number advising customers to contact that number if their premises are disconnected.

It is unclear how many customers are unfamiliar with the need for them to make arrangements with a retailer for supply before or when occupying new premises. SP AusNet's intuitive feel is that generally customers have this understanding and the need for a sticker to be provided is minimal. If this is the case then despite the cost of such stickers probably being relatively low (maybe $1 per customer), then the resulting $2.5M cost across the state could not be justified.

If there are however a reasonable number of customers who lack understanding of the need for a retailer to be chosen, then SP AusNet cannot suggest any other mechanism for providing this detail other than the sticker as suggested in the draft decision. However it does need to be recognised that use of stickers does have some downsides including:

- No help to customers who cannot, or will not access their meter panels
- A number of the stickers will ultimately suffer from mechanical damage or weathering, and fall off or become unreadable
- There is a possibility of distributor call centres relocating such that telephone numbers change

Whilst as stated above SP AusNet's intuitive assessment is that the need for the sticker in minimal, if the Commission's view remains, then SP AusNet seek the assurance that:

- The distributor contact envisaged is in no way directly linked to the identification of the sites default retailer (previous retailer or the host retailer as applicable)
- That personal contact is not required and that a "auto call attendant" type recorded message would be sufficient. SP AusNet's only 24/7 manned phone contact is our fault call number and we consider that it would be inappropriate to load this centre with this type of call.

12. Frequency of network billing of retailers by distributors (section 7)

The default Use of System Agreement (UoSA) will be amended to enable the distributors to issue monthly bills to the retailers, but retain the payment terms associated with the customers' current billing cycles.

Clause 7.8(a) of the UoSA will be repealed and replaced with the following:

"Subject to clause 7.9, a party must pay the amount specified in each invoice rendered to it in accordance with this agreement to the other party within the following number of business

days after the day on which the invoice is received (or deemed to be received) by the first party:

- To the extent that the invoice relates to Supply Points with a remotely read internal meter [which has been installed after 28 August 2007] and the billing period relates to a period before 1 January 2012 – within # Business Days;
- Otherwise – within 10 Business Days

Appendix Item 3 (Frequency of meter reads) will be amended to read:

"For all Supply Points connect to the Distribution System and having a remotely read internal meter – monthly.

For all other Supply Points – once every 3 months or as otherwise reasonably determined by the Distributor".

The amendments to the default Use of System Agreement will take effect from 1 October 2010, to support the distributors' commercial arrangements with the retailers.

SP AusNet consider that there are four fundamental approaches available in regards to Network Billing on a monthly basis in the period whilst retailer billing is restricted to being on a quarterly basis.

1 No Change

Billing by distributors of NMIs with AMI meters remain fixed to the NSRD date. (We understand that this solution is not available to some distributor's due to system constraints.). SP AusNet consider that there are a number of advantages in moving to monthly network billing now and hence this approach is not favoured by SP AusNet.

2 No Payment Term change

As meters are transitioned to an AMI meter, the distributor commences billing the relevant NMI monthly and payment is required within 10 business days. This creates a working capital issue for retailers, as their customers are still on quarterly payment cycles associated with the NSRD. Retailers are required to pay the distributor for NUoS charges up to 90 days prior to them recovering the costs from their customers.

3 Extended Payment Terms

As meters are transitioned to an AMI meter the relevant NMI is placed on extended payment terms of 35 Business Days (non AMI meters are 10 Business Day payment terms). The proposal requires that each subsequent billing of that AMI meter is on extended payments terms until 31 December 2011.

Although this proposal alleviates the working capital issue experienced by retailers in approach 2, it creates a more serious issue post 31 December 2011 when these AMI meters revert back to 10 business day payment terms unless retailer billing transitions to monthly on or before that date.

For SP AusNet when monthly billing is initiated for the first time in late 2010, approximately 7% of SP AusNet Network Revenue would be placed on these extended payment terms. As more meters are transitioned to AMI, this figure would increase to 25% of Network Revenue by 31 December 2011 when about 40% of SP AusNet meters will have been transitioned to AMI meters. This creates a multi million dollar problem after 2011 when the AMI meters revert back to standard payment terms of 10 business days. Retailers would experience an

immediate working capital problem up to 6 times greater then when monthly billing first began, this increases in proportion to the number of AMI meters that are installed if extended payment terms stay in existence for longer periods and quarterly retailer billing remains.

Further for a publically register company like SP AusNet there are a number of real impacts of the doubling of SP AusNet's outstanding debt which results from this approach. These impacts are a consequence of the market perceptions resulting from this debt blowout and would result in real but difficult to quantify deterioration in SP AusNet's ability to attract market capital and increases in interest rates provided, etc.

4 Short Term Extended Payment Terms

SP AusNet is proposing an extended payment term approach similar to approach 3 above but modified to avoid the retailer working capital shock when the extended terms are removed, and to enable most of the network billing to be on normal (non extended) terms.

SP AusNet accepts that when a meter transitions to monthly billing, retailers experience an initial working capital shortfall for that meter. This is amplified in the very first month of monthly billing when the volume of AMI meters installed to that time (approx 50,000 for SP AusNet) move to monthly. This phenomenon is referred to as a "bow wave". Once this shortfall is accounted for, the working capital shortfall is overcome and distributor payment requirements align with retailers' payment requirements from their Customers.

The short term extended payment term approach works in the following manner.

In Month 1:

when an meter transitions to a monthly billing, on about the 20th calendar day of the next month the distributor raises NUoS charges bill for this meter. The payment terms for this bill would be extended to the same due date as under the payment terms for non AMI meters that are raised in Month 2. For SP AusNet, this is normally the first week of Month 3 (about the 5th calendar day) and represents an extension in payment terms to about 29 business days.

All other NUoS charges raised in Month 1, will be payable at 10 business days, ie. First week of Month 2. Extending the payment this way, allows for the additional NUoS charges raised by the distributor to more closely align with the retailer's pay cycle as is the current practice with Basic Meter installations.

In Month 2:

NUoS charges raised for this previously transitioned AMI meter, would be payable by the Retailer within the standard payment terms, ie. First week of Month 3.

In Month 3:

NUoS charges raised for this AMI meter, would be payable by the Retailer within the standard payment terms, ie. First week of Month 4.

The diagrams below better explain the method.

Fig 1, demonstrates 3 meters that transition on 1 January. Each meter has $30 of NUoS charges over a 3 month period (ie. $10/month over 3 months). As the NSRD dates on these 3 meters are staggered over 3 months, the Retailers would not see the Revenue benefit until months Jan, Feb & Mar for each meter respectively.

Fig 1. Retailer Billing

Retailer Billing	Jan	Feb	Mar	April	May
Basic/AMI Meter 1	30			30	
Basic/AMI Meter 2		30			30
Basic/AMI Meter 3			30		

In fig 2, the distributor generates NUoS charge bills for each meter in January. These bills relate to the final reads taken at billing frequency change. For meters 2 & 3 the billing frequency changes are partway through their normal reading cycle, therefore the NUoS charges are 2/3 and 1/3 of the normal value. In February, the NUoS charges are now monthly and billed at $10/month, which now continues on a ongoing basis for subsequent months.

Fig 2. Distributor Billing

Distributor Billing	Jan	Feb	Mar	April	May
Basic/AMI Meter 1	30 For 1/10 – 31/12	10	10	10	10
Basic/AMI Meter 2	20 For 1/11 – 31/12	10	10	10	10
Basic/AMI Meter 3	10 For 1/12 – 31/12	10	10	10	10

In fig 3, as the NUoS charge bills are raised on the 20th calendar day of each month, standard payment terms have due dates on or around the 5th of the following month. In fig 3 we assume the due dates fall on the 5th. For non AMI meters, payment terms would have February 5th as the due date for NUoS charge bills raised on January 20th. In these examples, a bow wave is created due to meters 2 & 3 being billed earlier than expected which would have an additional $30 impact to the Retailer.

The payment terms on these AMI meters under SP AusNet approach 3 are to be extended to the following month (ie. March 5th). Subsequent months revert to normal payment terms, February NUoS charges ($10) are due on March 5th; March NUoS is due on April 5th etc. etc.

Fig 3. SP Payment Schedule

Payment Schedule	5th Jan	5th Feb	5th Mar	5th April	5th May
Basic/AMI Meter 1	0	0	40	10	10
Basic/AMI Meter 2	0	0	30	10	10
Basic/AMI Meter 3	0	0	20	10	10

In fig 4 the working capital impacts are demonstrated. The SP AusNet approach overcomes the retailers' adverse working capital issues during the bow wave phase of the transition, before reverting to a neutral position in subsequent months.

For Meter 1:
the retailer gains $30 in January, which is retained through the month of February and is not returned to the distributor until March. In March, as the February NUoS charges are settled as well, the 2 month benefit turns into a smaller $10 deficit but when the retailer performs their billing in April, the benefit returns to a $10 positive to the retailer and is neutral in May.

For Meter2:

the retailer gains $0 in January, in February the retailer gains a $30 benefit and this is not returned to the distributor until March. In March, as the February NUoS charges are settled as well, the 1 month benefit becomes neutral but turns into a smaller $10 deficit in April. When the retailer performs their billing in April, the benefit returns to a $10 positive to the retailer.

For Meter3:
the retailer is in a neutral position in the months of January & February. With the retailer billing its customer in March, the retailer gains a $10 benefit. In April, this becomes neutral and is a negative for the retailer in May by $10.

This cycle of 'benefit', 'neutral' and 'negative' continues for each meter throughout the year.

Fig 4. Retailer Working Capital

Retailer Cash position in the month	Jan	Feb	Mar	April	May
Basic/AMI Meter 1	30	30	-10	10	0
Basic/AMI Meter 2	0	30	0	-10	10
Basic/AMI Meter 3	0	0	10	0	-10

In fig 5, the distributor extends payments on meters from February to March, with standard payment terms beginning in April.

Fig 5 . Distributor Working Capital

Distributor Cash Flow	Jan	Feb	Mar	April	May
Basic/AMI Meter 1	0	0	40	10	10
Basic/AMI Meter 2	0	0	30	10	10
Basic/AMI Meter 3	0	0	20	10	10

The method described above would apply to any meter that transitions to an AMI meter and avoids the need to have catch up payments amounting to millions of dollars in the future. The large bow wave at the very beginning of the process when 50,000 meters transition, and the subsequent impacts to both the retailer and distributor when the other meters are transitioned are minimised. .

SP AusNet has not had the opportunity to discuss this approach with retailers, however SP AusNet is confident that it will provide the retailers with the desired outcome of eliminating their adverse working capital issues; with the added advantage of overcoming the retailer issue of the potential large working capital hit when returning to 10 day payment terms in the future.

The default Use of System Agreement (UoSA) wording proposed in the Commission's Draft Decision is as follows:

> Clause 7.8(a) of the UoSA will be repealed and replaced with the following:
>
> "Subject to clause 7.9, a party must pay the amount specified in each invoice rendered to it in accordance with this agreement to the other party within the following number of business days after the day on which the invoice is received (or deemed to be received) by the first party:

- To the extent that the invoice relates to Supply Points with a remotely read internal meter [which has been installed after 28 August 2007] and the billing period relates to a period before 1 January 2012 – within # Business Days;
- Otherwise – within 10 Business Days

This wording will not support the use of the approach defined above.

SP AusNet also consider that the default Use of System Agreement (UoSA) wording proposed in the Draft Decision does not clearly identify the "category" of Supply Points to which the changes to payment terms apply. The change of terms should only apply to Supply Points where the meter has transitioned from quarterly to monthly distributor billing cycles.

The changed terms are only applicable to transitions of billing cycles, not where the Supply Point has previously been subject to monthly billing, and hence where the retailer presumably already has suitable customer billing arrangements in place, and/or have already "adjusted" their cash flow situations to cope.

SP AusNet suggest that the following wording or similar be considered for inclusion in the replacement clause for clause 7.8 (a) to overcome the current wording issues and to allow for the SP AusNet approach:

"Subject to clause 7.9, a party must pay the amount specified in each invoice rendered to it in accordance with this agreement to the other party within 10 business days after the day on which the invoice is received (or deemed to be received) by the first party except where the invoice relates to Supply Points with a remotely read internal meter [which has been installed after 28 August 2007]; which have transitioned to monthly distributor billing after 1 January 2010; and the billing period relates to a period before 1 January 2012, where the payment period will be as stated below:

- within # Business Days but this payment period extension does not apply to the quarterly bill which becomes due in the period between the related quarterly distributor billing date and the first monthly billing date following this quarterly read date, and where the meters' NSRD is in that same date range,

  or

- within periods determined by the following:
  - for meters that transition to monthly distributor billing between the related quarterly distributor billing date and the first monthly billing date following this quarterly read date, and where the meters' NSRD is in that same date range, the last quarterly bill payment period will be extended by about 29 Business Days (actual date aligned with the distributor's normal billing date).
  - for meters that transition to monthly distributor billing after the related quarterly distributor billing date, and after the first monthly billing date following this quarterly read date, or where the meters NSRD is after the first monthly billing date following this quarterly read date, the first monthly distributor bill will be extended by about 29 Business Days (actual date aligned with the distributor's normal billing date).
  - for meters that transition to monthly distributor billing after the related quarterly distributor billing date, and after the second monthly billing date following this quarterly read date, or where the meters NSRD is

after the first monthly date following this quarterly read date, the first and second monthly distributor bill will be extended by about 58 and 29 Business Days respectively (actual date aligned with the distributor's normal billing date).

SP AusNet notes that clause 7.8 (c) of the UoSA will also require to be revised to allow payment periods different to the 10th business day to which the current wording applies.