



**Victorian Jurisdictional Derogation
(Advanced Interval Meter Roll Out)**

**Submission to the Australian Energy
Market Commission (AEMC)**

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Origin Energy Retail Limited



1. Background

Origin is an integrated energy supplier with a portfolio that includes over three million electricity, gas and LPG customers in Australia and the Pacific. In New Zealand Origin has a majority (51%) ownership in Contact Energy. Origin has extensive experience in the development and operation of retail competition, successfully participating in jurisdictional markets across the NEM and in New Zealand.

Origin has a strong commitment to environmental issues and has taken a leading role through, for instance, the Business Round Table in the promotion of a coherent and effective National Emissions Trading Scheme and energy efficiency.

As part of our demonstrated commitment to environmental issues, Origin is also the leading retailer of accredited green energy to small customers in Australia and has an active and growing involvement in the development of solar technology, in the installation of solar PV systems across Australia and in the purchase of PV generated power from our customers.

Origin's commitment to environmental projects has been further recognised by the Federal Government with Origin the lead partner in the successful Adelaide Solar City project and a key participant in two other Solar City projects, including the Moreland City Council and the Bendigo City project in Victoria (out of a total of seven approved by the Commonwealth Government).

The Solar City projects have in turn been the stimulus for Origin's detailed consideration of options for advanced metering infrastructure (AMI) roll-out by a retailer in a competitive market. Origin, for instance, has undertaken successful negotiations with metering and Meter Data Agent (MDA) service providers to supply and install advanced metering with point-to-point communication and with extensive functionality consistent with various enhanced customer services (such as in-home display). A number of demand based pricing innovations such as critical peak pricing and time of use pricing options have also been developed.

The issues associated with our commitment to these advanced metering services in the context of a competitive environment are being worked through by Origin's retail business and we are more than happy to share our experiences in this area with the Commission. Similarly, in New Zealand, Contact Energy has undertaken an extensive trial of Remotely Read Interval Meters (RRIM) utilising point-to-point GPRS communication technology in the Christchurch area. Results from the trial have been very favourable and plans for a further extensive roll-out are well advanced.

The New Zealand electricity market, like the Victorian electricity market, is characterised by high levels of customer churn. However, it appears that with the right market settings and the recent developments in technology and associated cost reductions, a retailer can find a positive business case for the installation of advanced metering for small customers.

In Victoria, Origin has already established successful advanced metering arrangements in the competitive market for large industrial and commercial customers (>160MWh) and is progressively implementing AMI for larger mass market business market customers where it is cost effective to do so. Origin has therefore already seen the benefits of competitive market pressures in terms of reductions in meter and data service average costs.

Moreover, Origin has a focus on developing cost effective innovations in the mass market. As noted above, we are currently negotiating the installation of advanced metering technology and associated data services in the mass market for the Victorian Solar City projects. Origin is also actively pursuing opportunities for cost savings via a Multi Utility Metering Platform that allows the sharing of communication channels to the home by multiple utilities.



Given this background, Origin is well placed to understand the potential benefits of AMI technology for consumers, although at this stage there is limited information on the response of small consumers to this technology over time. The Solar City projects will be important in assessing both the technology performance and consumer response to AMI.

Similarly, over the past year, Origin has committed significant resources to supporting the Victorian Government's AMI project in many areas including participating supporting the extension of the AMI field trials to test other service options. For example, in parallel to the distribution companies' field trials of various metering and communication technologies, Origin has supported the successful field trial of point-to-point GPRS communication systems, thus providing the Government with valuable information on possible alternatives to the line carrier and radio mesh systems.

Again, Origin is more than happy to share the results to these various activities with the Commission on a confidential basis, including the expanded roll-out planned by Contact Energy.

2. The Derogation

The Victorian Government has requested the Commission, in accordance with section 91 of the *National Electricity Law* (the NEL), to make a Rule change to the National Electricity Rules (NER) by way of a jurisdictional derogation in connection with the rollout of AMI in Victoria.

The effect of the proposed Derogation is to provide exclusivity, for a transitional period up to 2013, to the *Local Network Service Providers* (LNSPs) to:

- Act as the *Responsible Person* (RP) in respect of the AMI meters rolled out to small electricity customers, that is customers using less than 160MWh per annum; and
- Nominate the agent to be used by NEMMCO to collect data from the relevant metering installation.

Currently, the responsible person for remotely read interval meters and the selection of the meter data agent is the retailer although the retailer can in turn request the LNSP to assume that role for any relevant metering installation.

The current rules under the NEM grant responsibility for the remotely read interval metering and meter data agency functions to the relevant retailer. The RP rules apply irrespective of the type of customer or whether the customer is categorised under the jurisdictional legislation as a small or large customer. It is these rules, for instance, that have enabled Origin to lead the Solar City projects (see above) in the selection of and commercial negotiations for, metering and communications technology.

The proposed Derogation, however, seeks a change in the application of the NEM rules as they currently apply to Victoria by effectively removing (for a transitional period) the existing right of retailers under the rules to appoint, as the RP for a site, metering providers (MP), and meter data providers (MDP). In removing this right, the proposed Derogation involves a significant change to the NEM market arrangements and replaces a competitive market model of meter and data service provision with a regulated model¹. A regulated model, in turn, removes much of the market tension that drives down costs and regulators may face considerable difficulty in "discovering" the efficient costs of a each service.

¹ While private meter providers and meter service providers may compete for the provision of services to distributors, the subsequent prices charged by distributors to retailers (and therefore) to customers will be regulated by the Essential Services Commission of Victoria (ESCV). The future benefits of the 'upstream' competition may then accrue to the distributor's owners, not to consumers, given the distributor's exclusivity rights.



The proposed Derogation is likely, for instance, to have an impact on Origin's plans to extend the Solar City model to new areas in Victoria and to limit our ability to extract commercial savings from meter and data service providers for the benefit of our customers.

Given our ambitions in these areas, Origin is therefore keen for the Commission to undertake a careful assessment of the implications of the Derogation against the National electricity objectives.

3. National Electricity Law (NEL) Objective

The objective of the Law is to promote efficient investment in, and efficient operation and use of electricity services for the long term interests of consumers of electricity with respect to —

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system

As a starting point, the NEL specifically requires consideration of the 'long-term' interests of consumers. In Origin's view, this in itself requires the Commission to consider the impact of the proposed Derogation on the contestable metering and data services market beyond the transitional period of exclusivity set out in the proposed Derogation.

For instance, it is important for the Commission to consider whether the proposed Derogation, and the consequential exclusivity in meter and data provision, will facilitate - or hinder - market developments that are in consumers' interests over the longer term and beyond the transition period.

A very important consideration for the Commission in addressing the long-term interests of consumers is the impact of the jurisdictional Derogation on national harmonisation. While the proposed Derogation notes that the Victorian Minister for Energy and Resources has consulted with other energy Ministers pursuant to section 91 (3) of the NEL, there is no information detailing the outcome of those discussions and the impact, if any, on national harmonisation.

Origin believes the Commission should undertake a further review of this question. In particular, as a national dual fuel retailer, Origin notes that there are considerable efficiencies to be gained by most retailers (which will, in turn, in a competitive market accrue in part to consumers) arising from national harmonisation both across electricity retail markets and between electricity and gas markets.

Further matters that we ask the Commission to consider in terms of the NEM objectives include the impact of the proposed Derogation on:

- The development of a vigorous and sustainable competitive market in meter and data service suppliers, a market that will continue to benefit consumers following the expiry of the proposed Derogation;
- The ability of the market to take early advantage of rapidly changing technology, particularly in the in-home services and the communications area, and including, for example, emerging technologies that compete to deliver high speed data services to the home, such as fibre-to-the-home;
- The capturing of future synergies and cost benefits across utility service providers such as an integrated Multi Utility Metering Platform (above);



- The development of retail product innovations to facilitate demand management; and
- The ability of the market in general to optimise service levels to the individual consumer requirements (as compared to a 'one size fits all' approach).

In considering these matters, Origin notes that issues of efficiency and certainty of meter and meter data services were also addressed as part of the Australian Competition and Consumer Commission's (ACCC's) authorisation of Victorian metering derogations in 2005.

The ACCC, while granting the derogation to LNSPs for types 5 and 6 meters, also noted that a key detriment of exclusivity was that it prevented "...responsibility for metering installations residing with the entity most likely to introduce innovative metering arrangements, the retailer..."². Moreover, the ACCC noted as part of the same decision that excluding remotely read meters (for instance, types 3 and 4 meters) from the derogation would address some of the anti-competitive effects of the derogation³.

Origin requests that the Commission bear in mind the ACCC's discussion on competition and innovation benefits of the current Rules, benefits that are, in our view, consistent with and even necessary to, the long-term interests of consumers.

4. Victorian Advanced Interval Meter Communications Study (the Study)⁴.

The Victorian Government's decision to proceed with the AMI programme was, to a large extent, built on the findings of a cost benefit study conducted in 2005 by CRA International (CRA) and Impaq Consulting. Origin has some concerns with the findings of the Study and, more particularly, with the effect that subsequent changes in input cost assumptions that have occurred with the rapid development in technologies might have on the outcomes of the Study.

Nevertheless, Origin acknowledges the Study was a key input into the current Government policy of a mandated 5-year AMI roll-out. As noted previously, over the last year or so Origin has actively participated in the Government sponsored AMI project and has progressively brought to the table findings from our other market development activities.

Origin requests, however, that the Commission take into account the following features of the Study:

- The Study was conducted on the assumption that retailers would continue to be the RP, that is, there would be no change in the existing Rules. Presumably, therefore, the Study incorporated an assessment of any of the claimed costs of implementation under the existing Rules and still found a positive net benefit (even using the limited technology options available Study).
- Given this assumption, the Study did not explicitly develop or evaluate alternative models of a mandatory roll-out and therefore cannot readily be used to justify one option relative to another.

² ACCC (2005), *Applications for Authorisation - Amendments to the National Electricity Code, Victorian Metering Derogations*, page 37.

³ Ibid; page 32.

⁴ CRA International/Impaq Consulting (2005), *Advanced Interval Meter Communications Study*.

- The scope of the Study did not include investigation of network benefits, or the impact of various roll-out strategies on these benefits. Therefore, while the benefits may exist, there is little quantification in the Study of these benefits or examination of alternatives for achieving these outcomes.

These alternatives may, for instance, include negotiations with retailers and/or their meter providers and data agents for the provision of these services. The costs in turn may be captured through the existing revenue recovery arrangements, which allow the networks to recover costs where there is a net positive value associated with investment in energy quality or demand management⁵.

5. Economic Efficiency

In the context of the policy requirement of a mandatory universal roll-out, the proposed Derogation sets out a number of arguments that claim greater economic efficiency under an exclusive AMI deployment.

However, based on our more recent experience as a national retailer, including the recent developments in the New Zealand market, Origin requests the Commission to carefully consider these claims.

For instance, relative efficiencies of scale and density may not be as evident in a roll-out that has less reliance on line carrier technologies.

Moreover, once the policy setting of a mandatory roll-out is in place, all participants (including the competitive arms of the existing distributors) should have a vested interest in lowering costs by (a) co-ordinating their activities and roll-out plans with other retailers and/or suppliers; (b) utilising common service providers and common standards where appropriate; (c) seeking low risk strategies of meter provision such as establishing leasing arrangements with third party meter providers.

Importantly, these opportunities are available to both large and small retailers and there are strong competition law and regulatory and market incentives in place to constrain any potential exercise of market power by any of the participants.

6. Market Failure

Origin has stated on a number of occasions our strong view that competitive markets rather than regulation is the most preferred method of delivering cost-effective services to consumers, absent a natural monopoly. Our view extends to metering and data services where there are many national and international suppliers.

Where there is reasonable evidence of market failure the first step in the process therefore is to investigate the cause of the market failure and seek market based remedies. Regulation should follow only after this investigation has failed to remedy problem. At all times that regulation should be subject to a cost-benefit review, a review that should be undertaken in any case as part of the requirements to issue a Regulatory Impact Statement for any new regulation.

In our view, therefore, the question facing the Commission when assessing any suggestion of 'market failure' in the delivery of AMI services is, in the first instance, to ask whether the market has indeed failed.

⁵ See for example ESC (2006), *Electricity Distribution Price Review 2006-10, Final Decision, Volume 1 Statement of Purpose and Reasons*, page 502.



For instance, the current low volume of AMI systems in the small customer market may be a reasonable market outcome given the historically high costs of metering and communications technologies, the lack of competition in metering and data services for small customers and/or the presence of regulatory barriers such as retail price regulation and customer reversion rights?.

Origin believes we already see signs of several of these factors changing - for instance, as reflected in the recent developments in New Zealand.

In summary, the National Electricity Rules provide a market based framework to meet the stated objective of the National Electricity Law. Initially in 1998, derogations were passed by Governments to approve known areas of non compliance with this economic model. The introduction of a new derogation in 2008 to support the roll-out of Advanced Metering Infrastructure (AMI) will require demonstrated benefits to warrant a move away from the intended market based protocol. These claimed benefits, derived from a monopoly provision of metering infrastructure by Network Service Providers, should be tested against the stated objectives of the NEM.