29 May 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Subject: ERC0169 Consultation paper: National Electricity Amendment (Expanding Competition in Metering and Related Services) Rule 2014

SA Power Networks welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on the rule change request made by the Standing Council on Energy and Resources (SCER)[1] in relation to metering competition, issued on the 17th April 2014.

SA Power Networks supports a future national framework for metering that:

- Benefits customers through economic achievement of future network operational benefits
- Enables a transition to cost reflective network tariffs as quickly as practicable
- Enables a competitive, open and fair market for demand-side services
- Achieves available benefits across the whole electricity supply chain
- Maintains current metering-enabled services and efficiently leverages existing investments
- Facilitates broader adoption of smart meters while minimising any associated price impact on customers.

SA Power Networks has set out in detail its position on some aspects of the proposed competitive framework for metering services in previous submissions to the AEMC's *Framework for Open Access and Common Communication Standards Review*, in particular in response to the *Supplementary Paper* on the proposed regulatory framework issued as part of this review in February 2014. We refer AEMC to our previous response, which is included as Attachment 2.

With respect to the issues addressed in the AEMC consultation paper, our key comments are as follows.

SA Power Networks supports minimal change to existing rules

We strongly agree with the AEMC's view that "Any new arrangements should be simple and practicable from a consumer perspective" and "The rules should be simple from the perspective of businesses and the minimum necessary to achieve their intended objectives." We favour an approach that achieves the key outcomes SCER is seeking with minimal change to the present rules. Complex changes are likely to result in increased uncertainty for customers and increased operational costs for new and existing market participants.

As an example, we note that two of the factors cited as key barriers to a broader uptake of contestable metering services – bundling of regulated metering costs with network charges and uncertainty around exit fees – can be addressed within the framework of the existing rules, as has

[1] Now the COAG Energy Council

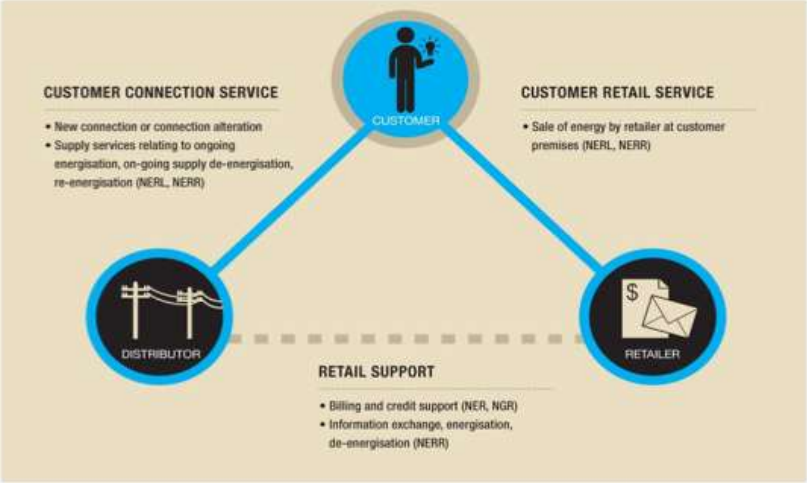
already happened in South Australia. SA Power Networks' regulated metering charges have been unbundled from network charges since 2010, and SA Power Networks already has defined exit fees for some classes of meter. In SA Power Networks' view, the remaining commercial barriers to a market-led smart meter rollout can be addressed without significant changes to the current rules.

The LNSP is not just another market participant

A smart meter offers many functions in addition to measuring consumed energy for market settlement. It is an active device that has the capability to control and monitor the customer's connection to the grid, including the capability to remotely disconnect and reconnect supply. Used appropriately, smart meters are a key enabler for the more active and adaptive two-way network Australia needs to enable consumers to participate more fully in the energy market. With access to the data sets that smart meters provide, LNSPs can respond more efficiently and effectively to the challenge of maintaining power quality standards in the presence of the fluctuating two-way energy flows associated with increasing adoption of solar and other distributed energy resources.

Accordingly, the Local Network Service Provider (LNSP) is not just another access seeker with a commercial interest in meter services. Australia's electricity networks are part of the nation's critical infrastructure, and LNSP access to smart meters extends to data and functions that support the safe and efficient operation of the network in the long term interest of the community.

SA Power Networks considers that the AEMC's consultation paper does not adequately consider the unique role and responsibilities of the LNSP. Section 6 of the paper, which examines relationships between parties affected by the proposed rule change, does not recognise the triangular relationship between customer, retailer and LNSP legislated through the National Energy Customer Framework (NECF), shown in the figure below[2]. The AEMC's assessment of the proposed rule change needs to consider the impact on this triangular relationship, in particular with respect to the use of smart meters to perform current LNSP functions such as energisation and de-energisation and the LNSP's responsibilities to maintain continuity of supply, in particular for life support customers.



Competition between metering providers does not guarantee efficient network outcomes

Under the proposed model, Metering Coordinators (MCs) compete to provide services to the retailers who appoint them, while LNSPs must rely on whatever network services are offered by the retailer-appointed MC. Competition will drive MCs to offer the services that retailers value at an efficient price, but, once appointed, MCs will have no competitive pressure in relation to the

[2] Extract from AEMC Power of Choice final report, page 47

provision of services to the LNSP. Under this regime, the efficient provision of network services will need to be codified in the rules as a fundamental responsibility of the metering provider, otherwise it is unlikely that the market will deliver network services in an efficient way, and the potential community benefits from network efficiency will be lost.

LNSPs also need the option to install and operate smart meters for network purposes where it is efficient to do so until such time as the market can deliver the same services more efficiently. Where LNSPs rely on meters for operational functions, appropriate non-reversion provisions are required to ensure that access to these functions is not eroded through meter churn.

The AEMC should also consider that when smart meters are widely deployed, functions such as remote energisation/de-energisation and load switching have the potential to materially impact on customer safety and the performance of the distribution network. The rules must ensure appropriate accountability for access control and security, so that LNSPs can continue to discharge their responsibility to ensure safety and continuity of supply, and to ensure power quality is consistently maintained to Australian Standards.

Summary

SA Power Networks considers that the current competitive market for advanced metering can be expanded to serve the needs of small market customers without major changes to the current rules.

The most significant challenges will be to ensure that:

- Available benefits of a broader smart meter rollout are captured across the whole of the market, including customers, networks and retailers
- The safe and efficient operation of the electricity network, and the roles and responsibilities of the LNSP in relation to the customer set out in the NECF, are preserved.

SA Power Networks considers that following are pre-requisites for a broader contestable market for smart metering:

- Well-defined common standards for access to meter services
- A reasonable minimum set of basic services for all future meter installations, including basic network services such as the provision of power quality data and loss of supply detection
- Provisions for non-reversion of standard services if the metering installation or meter provider changes
- Provisions for LNSPs to install and operate smart meters for network operational purposes where it is efficient to do so.

Our responses to the specific questions raised in the consultation paper are included as Attachment 1.

Should the AEMC require further clarification of any of our comments, please contact Mark Vincent, Manager Network Investment Strategy, on (08) 8404 5284.

Yours sincerely,

Sean Kelly

General Manager Corporate Strategy

Attachment 1 – response to specific questions in AEMC consultation paper ERC0169

Question 1	Are there any additional criteria that should be considered in assessing this rule change request?

We note that the AEMC's Power of Choice report acknowledged that:

"The metering arrangements need to consider the overall efficiency of the market, including the impacts on retailers, LNSPs and consumers, rather than being efficient for their own sake"[3]

The AEMC's assessment criteria have a narrow focus and do not fully address the overall efficiency of the market. The assessment criteria should more explicitly recognise the following:

- The need to ensure that the benefits of DSP and the more advanced metering required to support it are captured across the whole of the supply chain.
- The need to ensure that the value of existing investments in advanced metering is preserved, in Victoria and elsewhere
- The need to ensure that the rules do not preclude LNSP investment in metering and meter-based network solutions where efficient, and that such investment is not inefficiently eroded by meter churn
- The need to ensure that the market will meet the overall objectives of the NEO, in particular in relation to preserving the reliability, safety and security of the electricity system.
- Alignment with current roles and responsibilities as defined in the NECF.

Question 2	What are the benefits for competition by allowing any registered and accredited party to take on the Metering Coordinator role?

See response to Question 3 below.

[3] *AEMC Power of Choice review – giving consumers options in the way they use electricity*, Final Report, 30th September 2012, p83

Question 3	**Are there alternatives that are preferable to creating a separate Metering Coordinator role? For example, would it be appropriate to combine the proposed Metering Coordinator responsibilities with the existing Metering Provider role? If so, what advantages would this alternative deliver?**

SA Power Networks understands that a primary motivation for the introduction of the Metering Coordinator role is to minimise meter churn when a customer changes retailer. It is not self-evident that the proposed arrangements will achieve this outcome, in particular in light of the proposal that a retailer can also be a MC, which may result, in the medium term, in a market characterised by a small number of vertically-integrated retailer/MC businesses where the MC's primary function is to serve the specific needs of its associated retailer.

SA Power Networks considers that the new functions and responsibilities proposed for the MC role, including provisions for avoiding meter churn, can be accommodated within the existing RP, MP and MDP roles with relatively minor changes to existing rules. This would avoid additional complexity from the introduction of an additional category of market participant.

Question 4	**If established, should the new Metering Coordinator role be classified as Registered Participant under the NER or should other arrangements be put in place? If so, what accreditations may be required?**

If the intention is that the MC is essentially an extension of the current responsibilities of the RP, then existing civil penalty provisions would need to be preserved and extended to ensure accountability for the additional responsibilities. SA Power Networks considers that other parties would be better able to ascertain whether this would be best achieved by requiring the MC to be a Registered Participant.

Question 5	**Are any specific arrangements required in the event that a Metering Coordinator fails?**

See response to Question 6 below.

Question 6	**Should there be any specific changes to the ROLR arrangements regarding metering?**

It is evident from the AEMC's discussion of this issue in section 5.2.3 of the consultation paper that existing arrangements in the NER and NERL that are intended to provide continuity of service in the event that either the RP, MP or MDP fails would need to be extended to accommodate the introduction of an additional party, the MC. SA Power Networks does not have a view on how this

might best be achieved, but does not favour introducing additional complexity into what is already a complex set of relationships.

A further consideration is the case where a metering installation owned by a third-party metering provider fails, and the customer loses supply as a result. In this case the LNSP may be required to replace metering equipment in order to meet its supply restoration obligations, and would need to recover the associated cost.

Question 7	**How would the proposed jurisdictional arrangements impact on the proposed approach for competitive provision of metering and related services?**

See response to Question 8 below.

Question 8	**Should SCER's proposal for prescribing Metering Coordinator exclusivity be limited certain metering types? If yes, what are the metering types that should be considered?**

To the extent that the rules allow for a jurisdiction to prescribe a Metering Coordinator exclusivity, SA Power Networks does not see the need to limit this to certain metering types.

Question 9	**What information and consent requirements would be appropriate under the competitive model for provision of metering and related services?**

See response to Question 10 below.

Question 10	**Should opt-in / opt-out provisions apply where a party seeks to upgrade a consumer's metering installation to achieve business operational efficiencies that may lead to reduced costs for consumers?**

SCER's proposed approach to customer consent is reasonable. As noted by the AEMC, there may be a number of parties that seek to upgrade a metering installation to achieve operational efficiencies, including the retailer, the independent MC (if there is one) or the LNSP.

Importantly, when an incoming retailer or MC seeks to replace an existing metering installation that includes equipment that the LNSP is relying on for network operational functions (e.g. load control, power quality monitoring, outage notification or other network functions) – either within or external to the existing meter – then that meter or other equipment must not be removed without the consent of the LNSP. Such consent should not be unreasonably withheld, but is necessary to ensure that the LNSP's capability to operate the network safely and efficiently is not degraded as meters are

replaced, and the benefits of LNSP investments made in operational systems that rely on features of existing metering installations are retained.

In general, when the proposed common market gateway is operational and there is a well-defined common market protocol that includes a complete set of network functions, it should be possible to transition any existing network services seamlessly from an LNSP meter (accessed directly) to a new meter (accessed via the common market gateway). However, if the incoming MC or retailer is unable or unwilling to provide equivalent services on reasonable terms then existing equipment should remain in place.

Question 11	**Should retailers be required to inform consumers of their metering services charges? If so, what is an appropriate means for retailers to fulfil this obligation?**

This would be consistent with the AER's current approach to provide transparency through unbundling of metering charges and to facilitate customer choice. SA Power Networks assumes that the intention is that the retailer shows the metering charge as a separate item on the customer's bill.

Question 12	**Should the relationship between the retailer and the Metering Coordinator be based on a commercial arrangement? If not, what alternatives should be considered? What are considered the costs and benefits of a standard contract for this relationship?**

SA Power Networks notes that the existing separation of MP, MDP and RP roles already allows for competition in the provision of metering services and the avoidance of meter churn. Refining these existing roles, including through standard contractual terms, could potentially achieve the outcomes SCER is seeking without the complexity of introducing a new role.

Where there is a MC, a standard contract between MC and retailer only makes sense where the two roles are separate commercial entities. Under SCER's proposal, the retailer will, in most cases, appoint the MC, but may also be the MC. The rule change needs to make clear what ring-fencing provisions are to apply in the latter case.

Question 13	**Should residential and small business consumers be able to exercise a right to appoint their own Metering Coordinator? If so, what arrangements would need to be put in place to govern that relationship?**

It seems appropriate that a consumer should be able to appoint their own MC if they wish, although SA Power Networks agrees with AEMC's assessment on p47 of the consultation paper that residential and small business customers are unlikely to exercise this option in practice. We note that larger commercial and industrial customers are able to arrange their own metering under the current rules, and expect that similar provisions would apply.

Question 14	Are any additional consumer protections required to support a direct relationship between a consumer and a Metering Coordinator?

No comment.

Question 15	Do the NER require any changes to facilitate unbundling of metering charges from distribution use of system charges? If so, what factors should be considered?

No. Regulated metering charges are already unbundled in South Australia as Alternative Control Services under the present rules.

Question 16	Should the AER have a role in determining exit fees for accumulation and manually read interval meters?

Yes, where exit fees apply, they should be regulated by the AER.

Question 17	If so, are SCER's proposed criteria for determining exit fees appropriate, and should a cap on fees be considered?

SA Power Networks considers that:

- LNSPs must be kept "whole" on their metering investment when regulated meters are replaced. This may be through fees paid by the incoming retailer or meter provider or through any other mechanism that is efficient and equitable.
- Administration of any cost-recovery should be simple, to minimise cost.
- Where a fee is paid, ownership of the old meter should transfer to the new retailer or meter provider. This would create the opportunity for the incoming meter provider to make use of the existing meter, e.g. by installing their own telecommunications solution, where this is possible.
- The term "exit fee" does not necessarily capture the intent of the transaction. If such fees are to be used in future, SA Power Networks considers that a term such as "meter transfer fee" may be more appropriate.
- An alternative approach that could be considered specifically for all basic accumulation meters is to retain/transfer the residual asset value to the LNSP's Standard Control Services asset base to avoid administration costs and the need for an external meter transfer fee for this type of meter.

- SCER's proposed criteria are reasonable, noting that where the average depreciated value of the meter stock is used to determine the fee, this may need to be calculated across the stock of meters of broadly the same type as the one being replaced.
- A cap on fees is not required, nor is it appropriate; fees should be set at the correct economic level by AER.

Question 18	Are the existing arrangements under the NER appropriate to enable a distribution network business to allow for advanced metering technology as part of a regulated DSP business case/program?

See response to Question 19 below.

Question 19	If not, what additional arrangements might need to be put in place to allow sufficient certainty to distribution businesses to do so?

There are a number of scenarios in which a LNSP may seek to access advanced metering as part of a regulated program:

- In order to implement a non-network solution to address a capacity constraint in a specific area, where this is more efficient than augmenting the network. In this case, the LNSP would use regulated funds for expenditure associated with establishing access to the advanced metering necessary and customer incentives to place load under network control.
- In order to access power quality and other data at customer premises for network operational and planning purposes.
- Where other operational benefits cases exist, for example, by enabling meter reading at difficult to access sites or to improve supply restoration performance in targeted parts of the network.

In any of these cases, when the LNSP submits the project to the AER as part of its regulatory submission, there should ideally be certainty both that the necessary access to advanced metering can be achieved, and of the associated cost of access. Where the LNSP proposes to install its own meters, it has this certainty.

In a competitive market where:

a) advanced metering is widely available through third party metering providers,

b) the relevant network services are offered in a consistent way by all providers through a common interface, and

c) LNSPs have long-term certainty of pricing for access to these services across multiple providers,

then LNSPs can build a business case to put to the AER based on purchasing access from other parties.

These market conditions do not yet exist, and it will take some time for them to develop in the proposed market. Moreover, LNSPs have raised concerns that the proposed market arrangements are not sufficient to guarantee these outcomes.

LNSPs have immediate needs that can be met efficiently through access to more advanced metering. LNSPs have already deployed, and will continue to deploy, advanced meters in target areas for network purposes, but are constrained by the current rules in achieving the full benefit.

Under the current arrangements, rules already exist that are intended to ensure that meters that LNSPs install using regulated funding do not unfairly impact on competition in the market for advanced metering. Unfortunately, these rules are somewhat ambiguous, and this has led to the unintended negative outcome that LNSPs that have invested in communications-enabled meters for network efficiency have been prevented from enabling these functions. This is effectively denying the community a significant portion of the value of these meters.

LNSPs should have the opportunity to deploy advanced metering to support a regulated program where it is prudent and efficient to do so, at least as a transitional measure while the market develops. This does not preclude a LNSP that has budgeted to install its own meters from choosing instead to purchase access to metering services from other providers if the market can deliver the same outcome for lower cost – in fact under a RIT-D test LNSPs are required to implement the more efficient solution.

SA Power Networks considers that the rules under which LNSPs deploy meters for network purposes must be set so that other providers that would like to offer the required services can compete fairly.

We would propose that the rules are clarified such that:

- Networks can install advanced meters under a regulated program, where this is approved by the AER
- The existing rule that states that communications may only be enabled on a type 5 meter for 'operational difficulty' should be clarified to 'for network purposes approved by the AER' or similar.

Question 20	**Are changes required to the AER's ring fencing guidelines to accommodate a distribution network business seeking to take on the role of Metering Coordinator?**

SA Power Networks agrees that the provision of contestable metering services should be ring-fenced from the provision of regulated metering services. In a competitive market all parties should compete on a level playing field. We have no reason to believe existing ring fencing guidelines are inadequate.

Question 21	**What do you consider are the appropriate governance arrangements for allowing for a new smart meter minimum specification in the NER?**

See response to Question 22 below.

Question 22	Is AEMO the appropriate body to develop and maintain the proposed minimum functionality specification to support competition in metering and related services, or are there alternative options that could be considered?

SA Power Networks supports SCER's proposal that AEMO, though the IEC, should develop, maintain and publish a smart meter minimum specification. We consider that:

- This specification should be based on the SMI Minimum Functionality Specification
- The specification should codify a set of metering services that will be made available to authorised market participants using the metering installation
- Metering services should be accessed via a common market gateway using a standard market protocol
- A metering service should clearly define:
    - The smart meter function or functions to which the service relates (e.g. loss of supply detection)
    - The standard interface market participants use to access those functions through the common market gateway
    - Performance requirements (e.g. timeliness and reliability of data delivery; there is little value in a 'last-gasp' alarm or an emergency load shed command unless it is delivered in a timely manner)
    - Access rights (which parties have the right to access the service).
- When a service is offered at a metering installation, it must conform to the relevant service definition, and this requirement should be codified in the rules as part of the responsibilities of the provider (MP, MDP or MC, depending on the final structure of the roles).

SA Power Networks does not support the view that there should be no binding minimum standard specification unless prescribed by a jurisdiction. We consider that there are basic smart meter data sets and network functions that can be provided at little or no marginal cost when a smart meter is enabled with communications for remote reading, and that the provision of such basic services via a common market protocol should be a minimum standard for all smart meter installations.

Question 23	Should there be arrangements that allow for jurisdictions to determine their own new and replacement polices or should all new and replacements meet a common minimum functionality specification?

While there are benefits in a nationally-consistent approach, SA Power Networks accepts that jurisdictional differences are a reality, and local jurisdictional arrangements may be appropriate.

Question 24	**Is it appropriate that the Victorian distribution network businesses would become the Metering Coordinator for the smart meters they have deployed?**

Question 25	**Should an exclusivity arrangement be put in place to allow Victorian distribution network businesses to continue in the Metering Coordinator role for a specified period of time? If so, should this be determined by the Victorian Government or defined in the NER?**

Question 26	**Should Victoria's local distribution network business be required to take on the Metering Coordinator role as a ring fenced entity after the exclusivity period has ended?**

In response to Questions 24 to 26 we refer to our comment in response to Question 1 that the value of existing investments must be preserved.

Question 27	**Is it appropriate that as part of the transitional arrangements, the local distribution network business would become the initial Metering Coordinator for existing meters for which it is the Responsible Person?**

Yes, if a new MC role is introduced this would be appropriate.

Question 28	**If so, should the local distribution network business be required to take on this role as a ring fenced entity? And by what stage of the transition would the ring fenced entity need to be established?**

The consultation paper appears to infer that the LNSP may be required to establish an unregulated business entity to undertake metering services during the transition period. It is not clear how a LNSP that does not already have a separate unregulated metering business could be compelled to establish one, nor how the cost of this would be recovered.

During transition, LNSPs should be able to continue to offer a regulated metering service until such time as the market has developed to the point that there is no further demand for one. Current provisions for unbundling of metering charges as an Alternative Control Service are considered sufficient to enable a competitive market.

Question 29	Is it appropriate that as part of the transitional arrangements, retailers would become the initial Metering Coordinator for existing meters for which it is the Responsible Person?

Yes, if a new MC role is introduced this would be appropriate.

Question 30	Are there any other systems, procedures or guidelines that might need to be amended to support competition in metering and related services?

We refer to the alternative approach outlined in response to Question 17.

Attachment 2 – SA Power Networks submission in response to AEMC supplementary paper on the regulatory framework for access to smart meter services

11 March 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Subject: EMO0028 Framework for Open Access and Common Communication Standards Review, Supplementary paper – regulatory framework

SA Power Networks welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) supplementary paper on the regulatory framework for access to smart meter services issued on the 24th February 2014.

Smart meters deliver a range of benefits to consumers, some of which arise from more effectively monitoring and managing the operation of the electricity network. Examples include:

- The ability to control load such as hot water heating. In South Australia, some 300,000 customers have a controlled-load hot water service today. All customers benefit from the associated reduction in network load at peak times, which improves utilisation of network assets and reduces network augmentation costs.
- The use of smart meter power quality data to facilitate the ongoing integration of intermittent renewable energy such as solar into the grid while maintaining power quality standards.
- The ability to detect remotely when a customer is off supply, or to remotely check the quality of supply when a customer calls in to report a problem, which can reduce unnecessary field crew visits to premises and enable crews to restore service in a more timely manner when the network is damaged due to a fault or storm.

These opportunities for improving the management of the network arise when networks have access to a critical mass of smart meters that provide network functions. If the community is to realise the full benefit from a future investment in smart meters, the commercial and regulatory framework for access to metering services must ensure two things:

- Networks must have certainty that network services will be made available, if they are to invest in the backoffice systems and processes to make use of them.
- Where fees for access apply, the framework must ensure efficient pricing, otherwise the available benefit to the community is eroded and/or the network may not be able to build a case to make the investment at all.

Certainty of access

In the proposed market model, networks and others must rely on the metering coordinator (MC) to provide meter services, but do not appoint the MC. The MC is appointed by the financially responsible market participant (FRMP) or customer and can change at any time.

SA Power Networks considers that the following are pre-requisites for a working framework for access under such an arrangement:

- Well-defined common standards for access to services
- A reasonable minimum set of basic services, including basic network services
- Provisions for non-reversion of standard services at a premises when the MC changes

Networks require a level of certainty to support investment in systems and processes to manage critical infrastructure. This would be difficult in an environment where networks must rely on ad-hoc arrangements with a range of service providers that can alter over time. While it will be in a MC's interest to offer network services if there is an opportunity to generate additional revenue, it is not their core business under the proposed market arrangements, which is to provide metering services to FRMPs. In the absence of adequate standards and a minimum service specification, it is likely that MCs will vary in their willingness and ability to offer network services according to their individual business models, commercial arrangements with their primary customers (FRMPs) and technology choices.

In the early stages of market development it is unlikely that any single MC will have the critical mass of meters required to deliver network benefits, particularly where there are several MCs operating in a particular jurisdiction. In such a market, networks will only be able to make use of network services when they have certainty that the same services will be offered in a consistent way by all providers. Furthermore, if networks must negotiate fees for access, as the AEMC is proposing, then there would need to be some certainty of price stability over time.

Without certainty of access to smart meter services, networks will be encouraged to invest in alternative solutions to deliver some of the desired improvements in the monitoring and management of networks. Conversely, without certainty of revenue for network services (whether through metering charges or alternatives), MCs may elect not to install meters with network functions. Either outcome would be a lost opportunity, and result in higher cost to the community in the long term.

Access fees

In its supplementary paper, the AEMC states[4]:

> *"On whether network businesses should have access to a defined level of 'basic' smart meter functions free of charge, our draft finding is that:*
>
> - *network businesses should negotiate and pay for access to smart meter functionality on a commercial basis, in the same way as other market participants. This approach places commercial incentives on network businesses to negotiate a level of access to the number of smart meters and types of services available that is economically efficient."*

The AEMC's supplementary paper goes on to identify a number of scenarios in which its proposed approach could result in inefficient pricing and higher overall cost to the community, primarily as a result of the imbalance of power in commercial negotiations between the MC, who enjoys an effective monopoly on the provision of metering services, and any accredited party seeking access to meter functions other than the FRMP, since it is only the FRMP that can choose a different MC if the price offered is not reasonable.

[4] AEMC *Supplementary report- Regulatory framework: Framework for open access and common communication standards,* 24 February 2014, pp.3-4

In our previous submission, SA Power Networks noted that when a customer replaces a meter with one that is capable of remote communication there are some immediate benefits in terms of safety and efficiency in the network than can be enabled at low marginal cost. We have suggested that an efficient way to ensure that these benefits are realised for the community would be to incorporate such basic functions as a standard part of the metering service paid for by the customer.

We request that the AEMC correct a misquoting of SA Power Networks' position made in the supplementary paper. The AEMC states[5]:

> *"SA Power Networks (SAPN) acknowledge that networks should pay for access to smart meter functions on the basis of the benefits that accrue to the broader customer base, not individual customers. Hence the cost to provide them should be recovered through metering charges."*

This does not correctly reflect our position. What we stated[6] was:

> *"Some Working Group members have argued that networks should pay a fee to access any network-related functions in the meter, on the basis that the network benefits that arise from these functions accrue to the broader customer base, not the individual customer, and hence the cost to provide them should properly be recovered through network charges, not metering charges.*
>
> *"While we accept the principle that underlies this argument, we have proposed above that a standard set of network functions must be provided for every smart meter as 'basic functions,' and made available to the network business at no charge (that is, the cost to provide them must be fully recovered within the metering charge)."*

We have proposed this approach because *the incremental cost of providing certain basic functions is very low* and, in the proposed market model, *there is no competition between MCs in the provision of network services*. The cost and risk associated with relying upon the proposed market to deliver these services would thus appear unwise and unwarranted.

In our proposed approach, MCs would have certainty of cost recovery for the provision of these services, networks would have certainty of service availability as the market develops, and competition between MCs would ensure efficient pricing without the need for price regulation. The provision of such basic network services 'free of charge' would not mean that the MC is disadvantaged by providing the services, since the customer is fully funding the provision of the services through their metering charge – as is the case today with the provision of metrology data via the B2B hub. As all MCs would be required to provide the same basic services, no MC would be at a competitive disadvantage.

We have suggested that for non-basic network services, i.e. *those that would result in a material increase in the metering charge* if included as standard, the network could pay the MC a fee for access as the AEMC proposes, however we remain concerned that MCs have insufficient incentive under the proposed market model to price these efficiently.

Other Working Group participants have proposed that networks pay a standard fee for access to a defined set of basic network services, and that this price should be fixed through regulation to provide certainty of cost for networks, and certainty of revenue recovery for MCs. SA Power Networks agrees that such an arrangement, with appropriate price regulation, would also address our primary concern, which is that both networks and MCs have the confidence and incentive to engage, in particular during the early stages of market development when meter penetration is low, so that network benefits are realised as a critical mass of smart meters develops.

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[5] AEMC *Supplementary report- Regulatory framework: Framework for open access and common communication standards,* 24 February 2014, p20

[6] SA Power Networks submission to the AEMC *Framework for Open Access and Common Communication Standards Review, Draft Report*, 30 January 2014

Competition review

Recognising a number of possible adverse outcomes from its proposed unregulated market, AEMC has proposed that:

- *it is prudent for a competition review to be undertaken at an appropriate point in time to reconsider these issues once a metering and data contestability framework is in place and the market has matured.*

SA Power Networks supports the proposed competition review, but notes that a competition review once the market has developed would be an opportunity to address inefficient pricing, but could not reverse inefficient investments already made, or efficient investments failed to be made, in meters, systems or network equipment. As an example, in our previous submission we noted the finding of the New Zealand Parliamentary Commissioner for the Environment in its 2013 report on the outcomes of the unregulated rollout in New Zealand[7], that:

> *"Regulatory intervention should not be done lightly and this is an area of rapid technological change. But the opportunity for delivering benefits to the householder and the environment at a small increase in the cost of the meters has been lost; retrofitting additional features is likely to be much more expensive."*

Regulation of access and other considerations

SA Power Networks considers that:

- Network stability, customer safety and customer privacy must be primary considerations in establishing the framework and in regulating rights of access. The goals of enabling a market for demand side services and competition in metering must be subordinate to the overarching goals of the National Electricity Objective (NEO).
- Network operators' ability to operate the network safely and efficiently must not be compromised. In practice this will mean that the right to access specific functions such as disconnect / reconnect and load control must be properly controlled, and the technical framework that is developed for the common market gateway must support robust authentication for service requests to prevent unauthorised operation of meter functions.
- The need for regulation of access goes beyond simple accreditation; a party that allows, through inadequate security or error, the unauthorised disconnection of customers from the network, or unauthorised switching of load, has the potential to cause material harm to the community and must be held properly accountable.
- Existing customer benefits, in particular the load control services that networks including SA Power Networks rely on today to balance load, must be preserved; if a meter that has a load control function is replaced, the incoming MC must provide the same or an equivalent service at the premises, and customers must not pay again for a benefit they have previously fully funded.
- In its focus on a framework to establish a market for metering services, the AEMC must not overlook the non-commercial benefits that a community investment in smart meters can offer. For example, opportunities for consumer safety benefits from smart meters such as loss of neutral detection must not be lost.

[7] *Update Report* on *Smart Electricity Meters: How households and the environment can benefit,* New Zealand Parliamentary Commissioner for the Environment, June 2013. This report focused in particular on the lack of home-area-network functions in the meters that had been deployed, but the same considerations apply to other load control and network functions.

Summary

Widespread deployment of smart meters provides an opportunity to deliver a range of benefits to electricity customers and the community. Some elements of these benefits, particularly the network benefits, are associated with a very low proportion of the overall cost but have the potential to deliver significant value to the community once a critical mass of meters is deployed with access to these functions readily available.

SA Power Networks considers that reliance on a pure market model places these benefits at risk.

By regulating minimum standards, access and pricing for a subset of services within that competitive environment, AEMC could provide surety of benefits realisation at low cost and without detracting from competition in meter provision.

Should any of our comments be unclear, or the AEMC require further clarification, please contact Mark Vincent, Manager Network Investment Strategy, on (08) 8404 5284.

Yours sincerely,

Sean Kelly

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