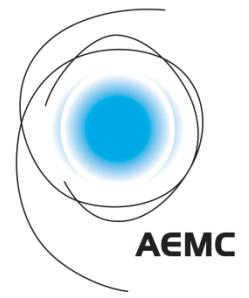


# Competition in metering and related services – rule change

Stakeholder workshop 3: Relationships between parties



Thursday 28 August 2014  
AUSTRALIAN ENERGY MARKET COMMISSION



# Introduction



# Core elements of the rule change

Workshop 1

## Metering Coordinator (MC) role

Independent MC

Outcomes of open access advice – gate keeper role and functions

Accreditation and enforcement requirements

Loss of accreditation or failure of an MC

Data access provisions for billing and settlement

Workshop 2

## Network regulatory arrangements

Unbundling metering charges from distribution use of system charges

Exit fees for type 5/6 meters

Smart meters as part of a regulated DSP business case

Ring fencing arrangements

Maintaining existing load management capability

Workshop 3

## Relationships between parties

Retailer-consumer relationship

Retailer-MC relationship (incl. contractual arrangements/need for light handed regulation)

Consumer-MC relationship (incl. consumer protections for small customers)

Workshop 4

## Minimum functionality specification

Upgrade to existing specification – AEMO work

Governance

Jurisdictional issues – new/replacement and reversion policies

Workshop 5

## Transitional arrangements

Arrangements for Victoria

Distribution business/retailer arrangements for existing meters

Provision to allow a MC exclusivity for type 6/7 meters

Workshop 5

## Implementation arrangements

Implementation plan/requirements

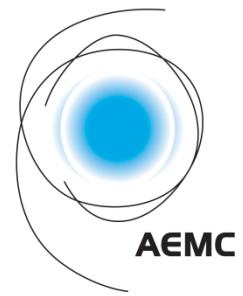
# Timeline

Item	Date
Workshop 1 – Metering Coordinator role	26 June 2014
Workshop 2 – Network regulatory arrangements	1 August 2014
Workshop 3 – Relationships between parties	28 August 2014
Workshop 4 – Overview of core model, consumer-MC relationship, governance of the minimum functionality specification.	24 September 2014 Sydney
Workshop 5 – arrangements for Victoria, supporting requirements for implementation.	[9] October 2014 Melbourne
Publication of draft determination and draft rule	December 2014
Public forum on draft determination and draft rule	January 2015
Close of submissions to draft	February 2015
Publication of final rule and final determination	April 2015

# Workshop outline

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- Session 1 and 2: Metering Coordinator – retailer, DNSP and ESCO relationship (consideration of competition issues and need for regulation - options).
- Session 3: Retailer and Consumer relationship: consent and information requirements.
- Session 4: Metering Coordinator and Consumer relationship – overview of proposal and update of AEMC consideration of issues.



# Session 1

## Metering Coordinator: retailer, DNSP and ESCO relationships



# COAG Energy Council proposals

- The core aspect of the COAG Energy Council rule change request is to:
  - make changes to the NER that allow any registered party to become a Metering Coordinator and provide metering and related services to consumers; and
  - allow for contractual arrangements between the retailer and Metering Coordinator to be based on commercial terms.
- COAG Energy Council also required the AEMC to consider:
  - The need for standard terms and conditions for contracts between the Metering Coordinator and other parties.
  - As part of the final advice for the ‘Framework for Open Access and Communication Standards Review’ we advised stakeholders that we would reconsider competition issues and incentives in relation to the provision of ‘value added services’ in this rule change request
- The focus of the first discussion is on identifying potential competition issues.

# Potential ownership models for a Metering Coordinator

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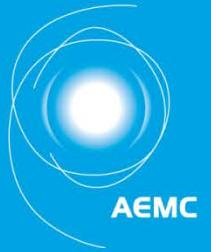
- There are three different types of ownership models for a Metering Coordinator that are likely to emerge under the new arrangements:
  - A retailer sets up a Metering Coordinator business. We refer to this as a Retailer Metering Coordinator.
  - A Distribution Network business sets up a ring fenced Metering Coordinator business. We refer to this as a Distribution Metering Coordinator.
  - An independent third party (eg Energy Management Company) performs the role of Metering Coordinator. We refer to this as the Independent Metering Coordinator.

# Issues raised by stakeholders

- Responses to the consultation paper were broadly supportive of the new framework, but identified some potential competition concerns, particularly with respect to a Retailer Metering Coordinator:
  - Distribution businesses were concerned that a Retailer Metering Coordinator would charge monopoly prices for the services they need to manage the network.
  - The AER expressed a concern that a Retailer Metering Coordinator would charge excessive prices for its services to other retailers, which could hinder competition in the retail market.
  - Energy Management Companies were concerned that a Retailer Metering Coordinator would have incentives to charge discriminatory prices or refuse access to third party energy management providers.
  - Both the AER and EnerNoc proposed that some form of light handed regulation may be required to address these issues.

# Guiding Principles

- Our guiding principles for developing the new arrangements are that the framework:
  - is simple and practical from a consumer perspective , so that it encourages consumer participation and choice of energy services and products;
  - provides energy services that reflect the efficient costs of providing those services;
  - promotes rivalry and minimises barriers to entry in the provision of energy services;
  - avoids unnecessary meter churn when consumer switches retailers; and
  - promotes innovation and efficient investment in metering and related services over time.



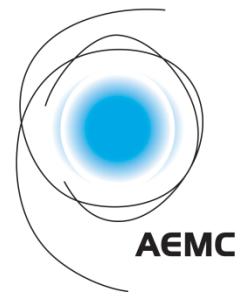
# Ownership models and scenarios

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# Frontier presentation

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# Session 2

## Need for regulation - options



# Need for regulation

- Previous discussion identified some potential risks where a Retailer owns a Metering Coordinator if sufficient competition does not emerge.
- There are a number of options for addressing perceived risks:
  1. no specific regulation, give the market time to develop and rely on competition to deliver efficient outcomes;
  2. no specific regulation but allow for a review of competition issues at a specified date (ie in three years time); or
  3. implement some form regulation at that time the new rules/framework commences.

# Spectrum of possible regulatory options

## Increasingly heavy handed regulatory options

No regulation

Price monitoring (ie requirement to publish prices, terms and conditions)

Negotiate/arbitrate + principles in NER

Allow DNSPs to retain their own devices or obtain services at no cost (excluding existing load control where separate to a meter)

Regulating terms and conditions via a standard contract

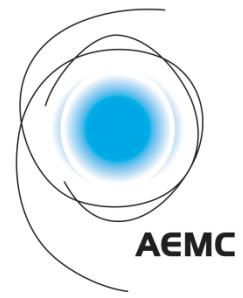
Regulate prices/charges directly

# Light handed regulatory options (1)

- Simple price monitoring:
  - Metering Coordinators being required to publish terms and conditions of access to their services, including offer prices on their website; and/or
  - Reporting annually on access negotiations.
- Negotiate/arbitrate plus principles set out in the NER, for example:
  - “Charges must be fair and reasonable and not unreasonably discriminate between market participants” (currently applying to Type 5-7 meters in Chapter 7).
  - “The price of the service should be based on the costs incurred in providing the service” (currently applying to negotiated distribution services in Chapter 6).
  - If failure to negotiate prices to be determined by third party arbitrator.

# Light handed regulatory options (2)

- Light regulation is not costless.
- In practice there may be some challenges in leaving outcomes to arbitration and/or implementing high level principles in the NER:
  - if the NER or arbitration require access to metering services to be provided on a cost reflective basis, this could undermine incentives to invest in metering services; or
  - encourage stakeholders resorting to the arbitration process as a matter of course.
- If it is considered light handed regulation is needed:
  - The benefits and costs of regulation will need to be weighed against the benefits and costs of imperfect markets.



# Session 3

## Retailer and consumer relationship



## For discussion

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- A. Consent required from a consumer when a retailer initiates and deploys advanced metering infrastructure.
- B. Information about basic metering charges.

# Part A: Consent requirements

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# COAG Energy Council proposal and submissions

- Consent requirements for when a:
  - Consumer chooses a new product (eg ToU tariff) or service (eg direct load control) requiring the retailer to change the meter.
  - Retailer upgrades the meter and this change has not been requested by the consumer (eg to gain efficiencies from timely meter reads).

## Submissions:

- Comments focused on retailer-led deployments of advanced meters:
  - General support for opt-out approach.
  - Retailers did not support an opt-in approach as it could increase costs of deployment of meters.

# Retailer-led deployments of smart meters: ability to opt-out

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- When a retailer decides to deploy a smart meter to a consumer for business efficiencies.
- Considerations based on consumer confidence and efficient deployment of advanced metering.
- We are proposing that consumers can ‘opt-out’ of obtaining a smart meter because:
  - An ‘opt-in’ arrangement would impose greater costs/barriers
- Some issues to consider:
  - Prior written notice requirements and opportunity to ‘opt out’ of change (eg time frames to opt-out).

# Retailer-initiated deployment of smart meters: change in costs

- COAG Energy Council considered consent requirements needed where a change or upgrade to the meter could change the *costs* faced by the consumers.
- It would be difficult to impose a requirement on retailers to obtain customer consent if the deployment of a smart meter changes the prices faced by a customer. Under the NERR, market retail contracts can contain terms that allow a retailer to vary prices.
- We are proposing that it is unlikely to be workable to apply consent requirements in this case.
- The opt-out notice would disclose any extra charges or change in prices.

# Consumer choice of products and services that require a smart meter – No new rules proposed.

- The COAG Energy Council proposes that when a consumer takes up a new product or service, the retailer must inform and obtain the consent for any additional costs.
- In this scenario:
  - If the customer takes up the new product or service under a market retail contract, likely already covered by the NERR.
  - Outside of market retail contracts, the consumer is protected by existing consumer and contract laws.
- We do not consider that additional arrangements are needed.

# Stakeholder workshop questions

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- Is an opt-out approach appropriate when a retailer decides to install a smart meter where small consumers have not requested the installation?
- What conditions should be attached to the opt-out approach? That is:
  - requirements for prior written notification (eg content of such notification); and
  - the prescribed notice period.

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## Part B: Information about basic metering charges

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# COAG Energy Council proposal and submissions

- Proposal that retailer inform the consumer of the metering service charges for that consumer.
- The AEMC to consider the best approach for a retailer to provide this information (eg bill, marketing material, on request).
- This proposal was on basis that a small consumer has the ability to appoint the Metering Coordinator.

## Submissions

- Metering charges on consumer's bill – mix of views.
- Some stakeholders considered that information about basic metering charges should be left to the retailer/market's discretion.

# Issues: Information requirements when small consumer cannot appoint its MC

- Consider that the most useful type of information relates to information about the overall bundled cost of products and services rather than focusing on component costs.
  - Providing specific information on metering services charges, particularly on a bill, would not assist consumers.
- Therefore, we consider that:
  - information about basic metering services charges should not be mandated on a consumer's bill; and
  - there would be no benefit in providing this information upon request if the consumer cannot appoint the Metering Coordinator.

# Issues: Information requirements when small consumer can appoint its MC

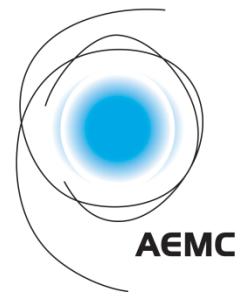
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- The exception is when a small consumer can appoint a Metering Coordinator.
- In this situation, the information about basic metering charges would be of value because it would enable that consumer to:
  - see how much they can save if they no longer buy metering services from their retailer; and
  - compare offers among different Metering Coordinators.
- If a small consumer can appoint a Metering Coordinator, retailers should be required to provide information about metering charges to consumers on request.

# Stakeholder workshop questions: information requirements

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- Do you agree that information about basic metering charges should not be required to be provided on bills?
- If a small consumer cannot appoint a Metering Coordinator, should information requirements about basic metering charges be left unregulated?
- If a small consumer can appoint a Metering Coordinator, should there be provisions that allow a consumer to request information from a retailer?



# Session 4

## Consumer – Metering Coordinator relationship



# COAG proposal and stakeholder views

- COAG proposed all consumers have the option to engage their own Metering Coordinator, with some supporting arrangements.
- Stakeholder views to date:
  - General support for large consumer to directly engage their own Metering Coordinator.
  - Divergence of views on the ability of small consumer to directly engage their Metering Coordinator:
    - Support for direct relationship between consumer and Metering Coordinator and this will allow for competitive pressure on parties.
    - No support for direct relationship – consider important to let the market develop – review in few years time.

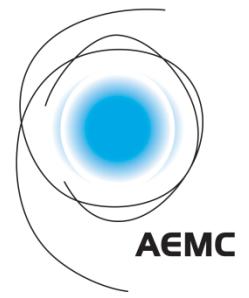
# Issues we are considering

Primary core model for new framework	Core model + option 1	Core model + option 2
Retailer to engage the Metering Coordinator for provision of metering and related services.	Retailer engages the Metering Coordinator except in circumstances where large consumers choose to engage their own Metering Coordinator.	Retailer engages the Metering Coordinator except in circumstances where large and small consumers choose to engage their own Metering Coordinator.

- Focus is on what requirements are needed to allow for consumer option.
- Issues we are considering:
  - What changes are required to the current regulatory framework to implement the direct relationship...
    - For example, the NERR currently only regulates relationships between consumers, retailers and distribution businesses.

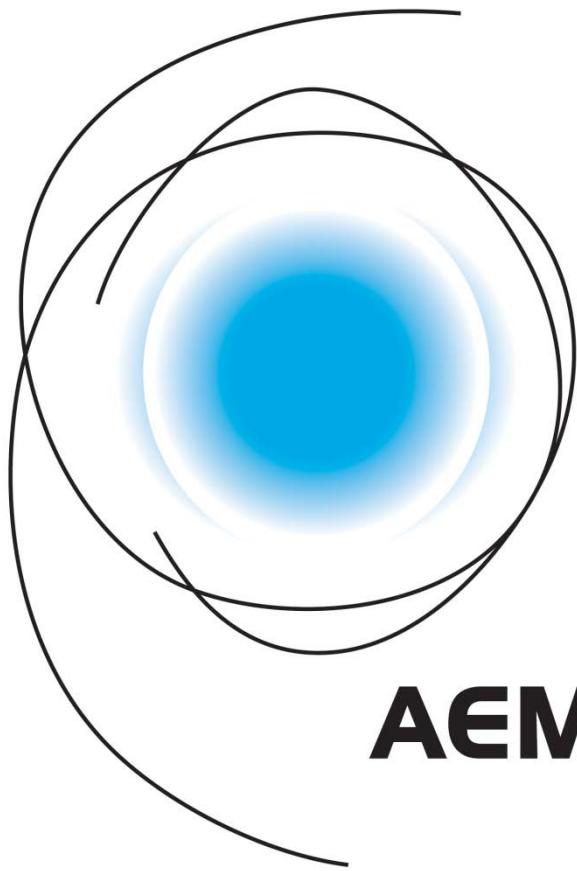
# Issues we are considering

- What the features of the relationship should be, having regard to the current regulatory framework ...
  - For example, should certain consumer protections obligations currently in place under the NERR apply to the consumer/Metering Coordinator relationship?
- To the extent additional regulation is required, how should the regulation be implemented ...
  - For example, should there be model terms and conditions or minimum requirements for contracts between Metering Coordinators and consumers?
- We will be considering the extent of regulatory obligations and the relative costs and benefits of introducing such regulation for the initial commencement of the proposed framework.
- We will be having a discussion of our position at the stakeholder workshop on 24 September.



# Wrap up and next steps





**AEMC**