19 January 2009

Dr John Tamblyn
Chairman
Australian Energy Market Commission
201 Elizabeth Street
Sydney NSW 2000

Victorian Jurisdictional Derogation (Advanced Metering Infrastructure Roll Out)
Draft Rule Determination
- Supplementary Submission -

Dear Dr Tamblyn,

We write in response to the 24th December 2008 submission of the Victorian Department of Primary Industries (DPI), which raises a number of points in relation to the proposal for 'carve outs' or exclusions to the proposed jurisdictional derogation.

The DPI states – correctly – that Retailers "currently have the option" to be the Responsible Person for customers consuming less than 160MWh of electricity per annum but concludes – quite incorrectly – that Retailers and their service providers rarely exercise this option.

In fact the vast majority of the remotely polled interval meters currently operating in Victoria are provided by competitive service providers, with Retailers acting as Responsible Person, and a significant component of these are for customer sites consuming less than 160MWh per annum.

Since the inception of full retail contestability, many Retailers have used remotely polled interval metering to separate customers from the net system load profile where a wholesale pricing advantage can be obtained. This has generally focused on small-to-medium enterprises below the 160MWh threshold. Powerdirect built an entire business around this strategy.

Many businesses operate across multiple sites and have opted for smart metering so that timely and consistent metering data is available – usually provided in conjunction with energy management and reporting services to reduce inefficient energy usage. Facilities managers

and larger corporate customers often tender for these services – some tenders have been for over 1,000 sites – and within the mix of such arrangements are a significant number of sites below 160MWh.

As a competitive, NEMMCO accredited metering provider, approximately two-thirds of the non-residential (ie. business and commercial) sites serviced by Metropolis Metering Assets Pty Ltd in Victoria are below 160MWh per annum.

Over the past two years we have witnessed increasing demand for residential smart meters and we actively compete against Victoria's electricity Distributors for the provision of meters when a customer needs a meter installation or upgrade of the existing meter.

Approximately 95% of the Victorian sites at which we act as Metering Provider – having been appointed by a Retailer acting as Responsible Person – are residential, averaging around 5MWh of electricity consumption per annum. A large proportion of those sites are outside of the Melbourne metropolitan area, in townships such as Ararat, Ballarat, Bendigo, Castlemaine, Morewell and Tatura, and remote rural locations, including Aireys Inlet, Grantville, Wattle Flat and Red Lion. From Lavers Hill in the west to Mallacoota in the east, we service the length and breadth of Victoria.

Residential customers serviced by us are metered with the latest smart metering technologies.

Complying with the technical standards for Type 4 metering installations under the National Electricity Rules and exceeding the technical specifications established for AMI – the meters are rich in value added features. Remotely polled (ie. read) every 24-hours, customers are provided with direct on-line access to their metering data at no extra cost.

Our meters have separate load control (eg. hot water) circuits and are capable of 'net' import/export measurement. Meter variables, such as time switch settings, can be remotely re-programmed. A 'gross' production meter can be added as can wireless in-home displays to communicate with each meter, in real-time, from anywhere in the home.

This is in stark contrast to the meters currently provided by Victoria's Distribution businesses, which comply only with the Type 5 & 6 technical standards under the National Electricity Rules, are manually read every 3-months, with no direct access to the data by the consumer, and do meet the minimum technical specifications for AMI.

It is worth noting that our charge for installing a Type 4 smart meter is in many cases less than the costs incurred by a customer when relying on a Distributor to install a Type 5 or 6 meter. Our ongoing service charges then match each of the Distributors' prescribed metering charges, per connection point, as approved by the Essential Services Commission.

The simple reality is that Victoria's electricity Distributors are not currently able to provide Type 4 capable smart meters to either residential or non-residential customers – certainly not at cost effective prices.

A derogation to Chapter 7 of the National Electricity Rules that provides complete and absolute exclusivity for the provision of meters under a mandated rollout of AMI, as proposed by the DPI, will deny a significant number of customers access to the enhanced metering services they desire and unnecessarily increase the costs of metering for these customers, who will be forced to pay for and accept a Type 5 or 6 service from a Distributor that will ultimately be superseded and replaced by an AMI meter. Each of those customers will be forced to pay for a meter they do not want, knowing full well that they will also pay for its replacement under cost recovery.

But if we are allowed to continue to meet the needs of these particular customers, then the costs they pay for the initial Type 4 meter installation are not wasted and they immediately gain access to the benefits of having such a meter. Moreover, because the funds available from that customer are immediately applied to meet the requirements of the rollout, with no need to replace such a meter, then effectively no other Victorian consumer need pay for that meter.

It is far more cost effective – and socially equitable – to allow customers, through their electricity Retailer, to obtain a Type 4 meter from an alternate source than it is to deny them that avenue on same vague notion that a blanket derogation provides investment certainty for the Victorian AMI project.

In truth, the order-in-council for cost recovery provides the investment certainty sought and acts as an effective form of derogation in its own right in that the funds necessary to rollout meters in large quantities are being channelled to the Distributors. There is no scope available to Retailers, or metering service providers, to access those funds to compete against the mandated rollout.

Only in those few instances where the customer is willing to pay additional costs, such as business customers, or has to expend funds for a meter installation/upgrade, such as residential customers requiring bi-directional metering, is there scope to compete – a very small and overall unobtrusive component of the market, which can in no way impact the effectiveness of the AMI rollout.

But to deny Retailers and metering service providers the opportunity to continue offering advanced metering services to residential and non-residential customers below 160MWh reverses long established market practices and puts numerous business strategies at risk.

In the case of Victorian primary and secondary schools, for example, smart meters are compulsory to be eligible for federal government grants of $50,000 under the National Solar Schools Program.

The majority of schools operate below 160MWh and have Type 6 three-phase, current transformer connected metering installations. If Retailers aren't allowed to authorise the upgrade of those meters by competitive service providers, then the only option available to those schools is to implement 'off-market' smart meters. As the existing metering installation must not be interfered with, a separate (new) metering point must be created with current transformers at considerable cost. Rather than 1.5%-2.0% of the grant being expended on smart metering – anything from 5%-10% of the grant will need to be expended.

In our own case the opportunity to further expand our business will shrink by 95% – jeopardising millions of dollars of investment capital.

All we seek is a fair and reasonable method to enable current market practises to continue. We believe this can be simply achieved by Retailers obtaining the explicit informed consent of customers, to assume the role of Responsible Person, during the derogation period. This is in line with current market practises whereby a Retailer must obtain explicit informed consent before initiating a transfer.

It is a simple, fair and equitable solution that in no way impinges on the Distributors' rollout strategies.

Before concluding there are some specific statements raised in the DPI submission to address:

1. The DPI state that "processes within the National Electricity Market (NEM) are not in place to deal with Retailer/MDA responsibility for AMI services."

   This is not correct as has been proven by the numerous residential sites at which are smart meters are installed in each of the Victorian Distributors' areas.

   a) Distributors do not remotely de-energise or re-energise sites through AMI systems. Those systems are not yet in place. Distributors continue to pull and re-insert service fuses to de-energise or re-energise sites.

      When doing so the relevant Distributor has advised us in advance of the de-energisation date. Our systems then poll the meter every half-hour on that date, until contact is lost, to obtain the final read, which is then delivered to all parties in the NEM12 data file.

      Upon re-energisation daily remote polling commences automatically.

   b) All our meters have remote turn-on/turn-off times for load control. These can be remotely reprogrammed upon instruction as we have done on numerous occasions.

      It is disingenuous to suggest that a Distributor would have to install a separate manually operated time switch if a Retailer is the Responsible Person. How could this in any way be a more effective alternative than picking up the phone to give us a call or sending an email?

   c) All our meters support outage detection and log other events and alarms. This information is readily available and has been used to identify and rectify problems within Distributors' networks.

   The DPI is not correct in stating that B2B hub does not support the information flow where the Retailer is the Responsible Person or where a competitive MDA is providing services. While the transactions are described in terms of the interaction between Retailers and Distributors, the B2B hub is actually only a router and the transactions can and are being used between other parties.

   B2B is also not the only means by which parties communicate between one another. The most important means of inter-participant communication is MSATS, and those transactions fully support competitive interaction with Retailers acting as Responsible Person. Other means of communication we regularly use are email, fax and telephone – all very effective.

   We concur that many of the issues concerning participant interaction can and need to be addressed over time – but our experience is that they cannot and will not be addressed in the abstract. Some level of market activity must take place in order to engage participants – otherwise important matters will never be effectively resolved.

2. The DPI states that there is "potential for customers to be locked into a particular MDA …(because) the technology and protocols being used are not the open standards being used by the MDAs that serve the above 160MWh pa customer groups (where it is easy to change MDA)."

The technologies and protocols used by us for residential and non-residential customers consuming less than 160MWh per annum are the same as for those industrial and commercial customers consuming over 160MWh per annum and are fully interoperable.

It is this technology choice that leads to our competitive pricing both above and below 160MWh per annum.

Metropolis is contractually obligated to allow any MDA appointed by the Responsible Person to read its meters. If a new MDA were to offer lower prices and/or better service to Retailers, than those offered by the encumbent MDA (such as our accredited MDA – Centurion) then Retailers will choose those MDAs. There is no lock-in, and retail competition is not affected by our technology choices.

3. The DPI asserts that allowing some level on non-exclusivity will deteriorate the efficiency of radio mesh solutions because of the high density requirements of those solutions. But this view contradicts the MCE, the AEMC, and even the Victorian Government continued assertions that exclusivity is a temporary measure, and that a few years in the future competitors will be able to install other AMI metering in the rollout areas.

   Distributor technology choices that rely on maintaining geographic densities need to be discouraged. There are several cost effective solutions that do not require high density – including mesh-radio.

   It can be noted that in overseas deployments there is a large component of GPRS used, in particular in New Zealand and The Netherlands, which is the same technology as used by most of the competitive MDA market in Australia. The radio mesh deployments in New Zealand are coping quite well within a competitive marketplace, and are not materially affected by GPRS deployments in the same areas.

4. The DPI asserts that Distributor exclusivity provides for least cost AMI and that "diminution of [distributor exclusivity] ….is likely to reduce net benefits to the community"

   The national cost benefit analysis did not consider a hybrid model, where the Distribution companies perform the rollout in conjunction with some degree of continued activity by the Retailers. The Retailer-led model considered by the study was a counter-point that assumed no Distributor involvement at all – it's results therefore do not support any assertion that carve-outs will either increase costs or decrease benefits. Any such assertion by the DPI is speculative and not supported by the cost benefits analysis.

   As stated above, a moderate level of Retailer activity is more likely to reduce Distributor costs by taking full advantage of the funds individual customers have available to put toward advanced metering. This will increase benefits as services will be provided earlier than waiting for a Distributor.

   Moreover, while Distributors are concentrating on the task of rolling out AMI in a geographically controlled fashion, we would argue that requiring them to also meet the needs of those customers requiring an installation or upgrade ahead of the rollout in their area will prove a distraction.

   Allowing Retailers and competitive service providers to meet the needs of those customers by deploying Type 4 meters will assist the large-scale rollout and reduce Distributor costs. Distributors will be free to concentrate fully on their planned rollout while companies with

more suitable solutions can handle the ad-hoc cases, which the DPI is admitting the Distributor solutions are not well suited to anyway.

This will, at the same time, add to the Distributors' experience with AMI solutions in a competitive context.

5. We dispute the statement that "no Retailer was able to commit to a potential carve out program." They simply were not given the opportunity.

   A formal approach was made by the DPI to gauge Retailer enthusiasm for a rollout. As you are aware, one Retailer responded very enthusiastically and engaged with Metropolis to begin plans for a rollout. Other Retailers also approached us to look at a Retailer-led rollout plans but before any serious plans could be formulated the Retailers were advised by the DPI that the State Government would be pursuing the derogation.

6. We are not aware of stakeholder assertions that Victorian feed-in tariffs are based on gross energy produced by the generator. While there is some general market confusion about what the terms 'net' and 'gross' define – organisations and individuals with which we deal are quite well informed and understand the concepts if not the terms.

   Residential and business customers installing solar, wind and other co-generation systems require a meter upgrade to measure the import/export values to obtain access to the feed-in tariffs.

   As stated previously, while Victorian Distributors do offer bi-directional (ie. import/export) metering upgrades these are based on Type 5 & 6 metering installation standards, not Type 4 standards.

   The feedback we get from the market is that our Type 4 metering services are better priced than the Distributor Type 5 & 6 services and that comparable Type 4 services are not provided by the Victorian Distributors in any case.

   So in the case where a customer is about to install a co-generation system they might well request an AMI meter ahead of the rollout to their area but, noting the DPI statement "that the most cost-effective AMI systems (such as mesh radio) ….require a high level of geographic density" it is not at all clear that the relevant Distributor would actually be able to meet that customer's needs. Nor is it clear what the "bring-forward cost that would be payable by those customers" might be in such a case.

   At the moment the only certainty for these stakeholders are the competitive metering services sought through their Retailer.

In conclusion, we do not consider that the effectiveness of a Distributor-led rollout of smart meters is in any way compromised by allowing Retailers to continue assuming the role of Responsible Person in what would only be a limited number of cases. It is a fair and reasonable position that suits the objectives of all affected stakeholders and is consistent both with the Order-in-Council made by the Victorian Minister for Energy & Resources and the MCE Statement of Policy Principles.

The Order-in-Council states that "each Distributor must use its best endeavours to install a remotely read interval meter for all of the metering installations ….for which it is the Responsible Person on the 31st December 2015 by the 31st December 2015".

This is supported by Exit Fees to facilitate Distributor cost recovery which are payable by a Retailer that "becomes the Responsible Person in respect of a metering installation ….(with a)

….remotely read interval meter ….installed by a Distributor" but not in respect of a metering installation where the Distributor is yet to install a remotely read interval meter.

The AEMC must have regard to the MCE Statement of Policy Principles, which states that "a distribution network service provider should have exclusivity over meter provision and responsibility for related metering data provision in respect of the customers covered by the mandate during the period in which the distribution network service provider must complete the mandate."

The customers covered by the Victorian mandate are those for which the Distributor is the Responsible Person on the 31st December 2015 and Distributor exclusivity extends only to those customer sites. The Victorian Order-in-Council clearly provides scope for a Retailer to assume the role of Responsible Person in the intervening period.

A decision by the AEMC to provide total exclusivity to Victorian Distributors is therefore inconsistent with the MCE Statement of Policy Principles.

We emphasise again that the scope to engage in competitive activities is limited by the Order-in-Council for Cost Recovery, and that only a relatively small number of customers needing specialist metering services would continue to turn to the Retailer to act as Responsible Person.

We look forward to the final decision and please do not hesitate to contact the undersigned on any of these matters.

Yours Sincerely,

Marco Bogaers
Managing Director