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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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Reference ERC0169: Expanding Competition in Metering and Related Services Rule Change – Consultation Paper

Thank you for the opportunity to respond to the Expanding Competition in Metering and Related Services Rule Change – Consultation Paper (the Paper).

Simply Energy is a leading energy retailer servicing Victoria, South Australia, New South Wales and Queensland. Simply Energy is a member of the Energy Retailer's Association of Australia (ERAA) and supports the ERAA's submission in response to the Paper.

The Paper sets out the Standing Council on Energy and Resources (SCER) proposed model for expanding competition in metering and related services for residential and small business consumers, to further the overall objective (from the Australian Energy Market Commission's (AEMC) Power of Choice review) of meeting the community's demand for electricity services by the lowest cost combination of demand and supply side options. The AEMC is seeking stakeholder views on the proposed model.

Overview of Simply Energy's position

Simply Energy welcomes the reform to expand the benefits of competitive provision of smart metering to residential and small business customers. Many consumers desire lower electricity charges, and have invested in rooftop photovoltaic (PV) generation and energy efficiency measures (such as LED lighting) to achieve this. There are also consumers who have discretion over when they consume, but are currently unable to benefit from exercising this discretion. Smart meters will remedy this, and will do so more efficiently under competitive than regulated arrangements.

The AEMC is seeking stakeholder comments on key features of SCER's proposed model. Simply Energy's comments in relation to each feature are set out in the following sections. Responses to the questions posed in the Paper are provided in an attachment. This letter and the attachment together comprise Simply Energy's submission.

The proposal for a new separate Metering Coordinator role based on no party having the exclusive right to provide metering services

Simply Energy has reservations over whether the costs to the industry of creating a separate Metering Coordinator (MC) role will be worth the benefits that it may generate.

Our understanding of the proposed model is that anyone could gain accreditation as an MC provided they meet certain minimum requirements that presumably AEMO would assess. If the customer so chooses, the customer could elect any MC to organise their metering requirements on their behalf.

In all likelihood, there will be few small customers who will want to engage directly with an MC and would prefer that their retailer organise all of their metering requirements on their behalf. In the end, it is retailers that will populate the MC role for the vast majority of small customers.

It seems a highly costly exercise to establish another layer of market participant that will require the creation of new market procedures and B2B communications protocols when it is retailers that will be performing the MC role in the vast majority of cases. It may also require retailers to go through the expense of obtaining accreditation as an MC for a role that they already perform as the Responsible Person (RP) for large market customers.

In our view, the costs outweigh the benefits of a separate MC role in the industry.

While there is a theoretical argument that allowing any party to undertake the MC role and giving small customers the right to appoint their MC will provide competition benefits in this market, thinking through the consequences for customers suggests that net benefits may be unrealisable.

Reform in the energy industry has been exemplified by breaking up traditionally vertically-integrated utilities into a combination of monopoly and market-based segments. This has led to clear benefits for consumers in terms of prices and service levels.

However, breaking an industry into parts has costs, and savings from more efficient infrastructure planning must be weighed up against the costs incurred by the development of systems and processes to manage the interfaces between industry participants.

At some point the costs of further fragmentation of the industry will outweigh the benefits to customers, despite a sound theoretical argument standing behind the fragmenting reforms.

Simply Energy considers that the proposal to separate out the MC role and enable customers to appoint the MC is an example of a reform project that may fragment the industry and impose costs that may outweigh any benefits to customers.

The costs of fragmentation include retailer and other participant costs of developing and implementing the systems and processes to manage the contractual relationships and information interactions between retailers, MCs and potentially other participants with respect to small customers. These relationships and interactions are challenging to manage for the commercial and industrial (large customer) segment. The challenge will be much greater for the small customer segment, where retailers must comply with a comprehensive set of consumer protections and where the prices paid by customers require retailers to manage customers using automated systems, unlike the bespoke approach possible for large customers.

Additionally, integration of the RP and retailer roles gives customers cost and certainty benefits that should not be readily dismissed. For example, customer transaction costs of understanding the benefits offered by different retailers and MCs, and determining which offers best suit them, are reduced. Fragmentation leads to a high risk that customers will not fully understand the implications of what they are agreeing to when they appoint an MC.

Crucially, clause 7.1.2 (a) (1) in Chapter 7 of the NER states that before participating in the market in respect of a connection point, the Market Participant (retailer for the connection point) must ensure that the connection point has a metering installation and that the metering installation is registered with AEMO. We understand that 'before participating' can be interpreted as an ongoing obligation on the retailer to ensure that metering is available for all connection points they are responsible for.

The retailer's obligations under this clause cannot apply if the customer appoints their own MC.

In this case a scenario could occur where the customer's metering installation no longer exists due to failure of the customer-appointed MC or simply because the asset itself has malfunctioned. Under these circumstances, the customer may end up disconnected until metering is restored. A retailer could not be expected to comply with its obligations under the National Energy Consumer Framework (NECF) because it is not the retailer's fault that disconnection has occurred.

The network regulation arrangements to support SCER's proposal

As we have submitted to the AEMC in the past, we are strong supporters of the proposed network regulation arrangements. We refer the AEMC to the ERAA's submission as we support the views expressed therein.

The requirements for a minimum functionality specification for smart meters

The ultimate intention of the competitive metering framework being established is that energy consumers will determine the variety and quality of the services being delivered through smart metering technologies. As a result, consumer demand and industry innovation should be dictating the capabilities of the metering technologies being used.

Simply Energy considers that the 'minimum' functional specification developed by the National Smart Meter Program (NSMP) resulted in a maximum functional specification, which contained capabilities that were questionable in their value and significantly increased the cost of a roll out of smart meters.

The functional specification developed by the NSMP was predicated on a distributor-led mandated roll out of smart meters and thus it probably needed to cater for all possibilities that may arise in the industry over the next 15-20 years.

The dynamics are different under a competitive market. Consumer demand for products and services developed by innovative retailers should be allowed to determine the functionality contained in the meter to the extent possible. This will increase the potential for dynamic efficiency over time as investment is made in the capabilities that consumers have proven they have a demand for.

In our view, the minimum functional specification should contain no greater functionality than that required for a traditional energy retailer offering no smart services to continue to compete in the retail market.

The minimum capabilities required by those energy retailers who decide there is a market for providing only the traditional retail services are:

- 30-minute interval data
- Remote reading capabilities
- Remote re-energisation
- Remote de-energisation

If a retailer wishes for a more extensive set of functions then it should be negotiating this directly with the meter provider/meter data provider. The extent of investment in metering capability will be determined by the value that the end consumer places upon that investment.

We are aware that networks may desire that a much wider range of capabilities is contained in the meter for network management purposes.

However, under the competitive framework being developed, the networks should be negotiating with the meter provider/meter data provider to provide these services. This has the benefit of creating a price signal for the networks: if the cost of the additional capability is not justified when compared with the benefits that were anticipated, then it is a more efficient outcome for customers if the network did not purchase those services or capabilities in the meter.

Under the competitive framework, a meter provider/meter data provider will likely have two primary contractual relationships. One is with the retailer, to deliver services at a certain quality that the consumer has requested from the retailer. The other contractual relationship will be with the network, to deliver the metering services needed for network management purposes.

Ultimately, the capabilities of the meter will be much greater than either party alone would have negotiated.

Jurisdictional policies regarding new and replacement metering installations, and reversion

New metering (for newly-established installations such as those for new premises) and replacement metering (where a meter no longer meets the required standards) should be provided under competitive arrangements where possible.

If this is not possible and the network is required to provide metering services prior to a competitive market developing, then it should be the lowest cost metering service available. This could be a basic meter or an interval meter read as a basic meter.

The aim of any policy developed should be to minimise the exit fees for the end consumer of having the network's meter removed once competitive metering begins.

As a result, the only reversion policy required is to prevent replacement of a Type 4 (smart) meter with a Type 5 or Type 6 meter.

A more prescriptive reversion policy, such as one that prevents replacement of a Type 4 with certain additional functions by a Type 4 without some of those additional functions, would be inconsistent with an approach that values customer choice. Customer choice could dictate that a Type 4 with sophisticated capabilities is replaced by a Type 4 with fewer additional functions. Such situations could include:

- Where residency at a property has changed and the new occupant only wants the services offered by a traditional energy retailer not offering smart services. There is no reason why this type of customer should miss out on savings from avoiding costs relating to services they do not require.
- Occupant sites (residency is unknown to the retailer) will not require the additional services provided by the previous occupant as no contract exist for the provision of those services.
- Customers could also choose not to renew their contracts for additional services, meaning that they no longer need some of the meter's additional functions. These customers should be able to obtain savings relating to the avoided costs of functionalities they no longer use.

Replacing a meter with one with fewer additional functions will only occur if it is efficient to do so, which is when the ongoing cost savings from moving to a cheaper meter outweigh the costs of replacing that meter. In certain cases it may be more economical to leave the sophisticated meter in place even though its features are not being used.

Reversion rules are not required to provide other parties, such as networks, with services, as the market will do this. The changing nature of the contractual relationship between the retailer and meter provider/meter data provider will not affect the contract the network has in place with those providers.

If you have any questions concerning this submission, please contact James Barton, Regulatory Policy Manager on (03) 8807 1171.

Yours sincerely

Dianne Shields
Senior Regulatory Manager

Attachment: Responses to Consultation Paper Questions

This attachment and the covering letter comprise Simply Energy's submission to the consultation paper (the paper) for the 'Expanding Competition in Metering and Related Services in the National Electricity Market' rule change.

The covering letter provides an overview of Simply Energy's position and this attachment provides responses to the questions posed in the paper. We have not attempted to respond to all questions, but have focused on those we consider to be key for us.

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

While there is a theoretical argument that allowing any registered and accredited party to take on the MC role will provide competition benefits in this market, Simply Energy considers that any potential benefits are outweighed by the costs.

In all likelihood, there will be few small customers who will want to engage directly with an MC and would prefer that their retailer organise all of their metering requirements on their behalf. In the end, it is retailers that will populate the MC role for the vast majority of small customers.

It seems a highly costly exercise to establish another layer of market participant that will require the creation of new market procedures and B2B communications protocols when it is retailers that will be performing the MC role in the vast majority of cases. Further information about costs is provided in the response to Question 13.

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?

For the reasons provided in the responses to Question 2 and Question 13, Simply Energy considers that the MC role should remain tied to either the retailer or distributor roles, as is the case for the current RP role.

The MC role is a 'responsibility' role (like the RP role that it replaces) rather than a 'delivery' role like the Meter Provider (MP) or Meter Data Provider (MDP) roles. Separating responsibility roles from delivery roles (including the MP and MDP) is preferable to combining them because it enables the party with the responsibility to work with a range of parties who specialise in delivery.

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 established, the MC role should be classified as a Registered Participant as a minimum, as this will at least form a basis for the current protections relating to the RP role to continue. If the MC role is established, accreditations should be developed to ensure MCs are competent and able to accept financial liability for the provision of metering. Current RPs should be automatically accredited as MCs when the RP role becomes the MC role.

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

If a retailer-appointed MC fails then the retailer will be required to appoint a new MC. This requirement potentially already exists as clause 7.1.2(1)(1) of the NER and so no specific arrangements are required as the current arrangements relating to participants with the RP role are sufficient.

The scenario of failure of a customer-appointed MC (the consequences of which we explore more fully in the response to Question 13) is one of the key reasons why we do not support the separation of the MC role from the retailer or distributor role at the site.

In our view, at the very least, the Rules around the application of the NECF may need re-drafting so that retailers are not held accountable for disconnections that occur due to failure of a customer's metering.

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

Specific provisions are required (similar to those applying to gas RoLR) to enable the RoLR to take over (for up to 3 months) the contract with the MC that the previous retailer had in place.

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

Simply Energy considers that a single set of rules governing metering in the NEM is preferable to rules that vary by jurisdiction. Jurisdictional differences will add complexity and costs to potential competitive metering roll outs. Enabling jurisdictions to determine exclusivity for certain metering types runs the risk that exclusivity would be granted in situations that are inconsistent with the National Electricity Objective. If jurisdictions wish to provide exclusivity, they should have to do this through a derogation process, so that the case for exclusivity can be publicly and independently assessed.

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

Exclusivity should only be considered for Type 6 and Type 7 metering installations. The benefit of competition for other metering installation types has already been made. Reviewing it again will lead to uncertainty, and the consequent costs, as anyone contemplating entering the competitive market to provide metering services will question the commitment of policy makers to competitive provision.

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

Requirements on MCs to provide information would need to be comprehensive so that customers fully understand the risks they are accepting by taking this responsibility on themselves. The proposal should be amended so that the information and consent requirements apply to customer-appointed MCs as well as retailer appointed MCs. Specifically, the party with a contract with the customer to provide metering services should obtain consent for changes affecting costs or services, and provide information about changes that do not affect costs or services.

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?

Opt-in provisions are not appropriate as they will increase the costs and needlessly reduce the scope of any efficiencies obtained. This is because people tend not to opt in unless they have a strong personal reason for doing so, even when they are aware of the community benefits (as has been found in relation to organ donor registers). Opt-out provisions are not required either, as a customer who is unhappy with the MCs decision to upgrade the installation can choose to move to another MC.

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?

If retailers are required to inform consumers of their metering services charges then the best approach would be to leave the method to the retailer's discretion. However, if a method must be specified, then it should be provision of information on request. Requiring the information on bills and marketing materials will not only increase costs, but will also add further complexity and transaction costs for customers, for no clear tangible benefit. We note that the complexity of energy price fact sheets is already being questioned, and adding information about metering services charges will increase this complexity.

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?

Yes. We agree with the proposal to base the relationship between the retailer and the MC on a commercial arrangement. There is no value in defining or imposing a standard contract. A standard contract will limit development of arrangements that suit the parties in each case, and will not ensure that parties are able to contract on terms and at prices that suit them.

Simply Energy does not support the ability of an MC to assign its responsibility to another MC, as long as the contract hasn't changed. A retailer or customer will appoint a MC based on a range of considerations, not just the terms of a contract. Allowing assignment without consent may impose on a retailer or customer an MC that they did not choose.

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?

No. While there is a theoretical argument that giving small customers the right to appoint their MC will provide competition benefits in this market, Simply Energy considers that any potential benefits are outweighed by the costs. The costs include the following:

- Retailer and other participant costs of developing and implementing the systems and processes to manage the contractual relationships and information interactions between retailers, MCs and potentially other participants with respect to small customers. These relationships and interactions are challenging to manage for the commercial and industrial (large customer) segment. The challenge will be much greater for the small customer segment, where retailers must comply with a comprehensive set of consumer protections and where the prices paid by customers require retailers to manage customers using automated systems, unlike the bespoke approach possible for large customers.
- Customer transaction costs of understanding the benefits offered by different MCs and determining which offer best suits them.
- The risk that a customer faces when appointing an MC that is not their retailer. The retailer relies on the metering services that the MC is responsible for with respect to market settlement and customer billing. Small customers already complain about bill shock from rebilling caused by meter reading issues where the distributor has the RP role, and the fragmentation of metering that would follow from small customers appointing MCs would potentially make this worse.

Crucially, clause 7.1.2 (a) (1) in Chapter 7 of the NER states that before participating in the market in respect of a connection point, the Market Participant (retailer for the connection point) must ensure that the connection point has a metering installation and that the metering installation is registered with AEMO.

We understand that 'before participating' can be interpreted as an ongoing obligation on the retailer to ensure that metering is available for all connection points they are responsible for.

The retailer's obligations under this clause cannot apply if the customer appoints their own MC. In this case a scenario exists where the customer's metering installation no longer exists due to failure of the customer-appointed MC or withdrawal of the MC's services to the customer for one of many reasons, such as the customer's non-payment of the MC's charges. Under these circumstances the retailer is unable to meet its responsibilities for the site and may have to disconnect the site until metering is installed.

The customer is not a regulated entity under the NER and therefore cannot be required by the rules to appoint a replacement MC or remedy the situation with the MC such that the MC's services resume at the site. As a result, there is no mechanism by which retailers can ensure their compliance with clause 7.1.2 (a) (1) if a customer appoints their MC.

If the AEMC decides that small customers should be able to appoint their MC, then consent and similar customer protection measures should apply to this relationship to give customers the same protections for metering services that they have in relation to electricity provision. This is important as metering is essential to electricity provision.

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

Yes. See response to Question 13.

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

Yes. Simply Energy supports the proposal for the AER to determine reasonable exit fees for Type 5 and Type 6 meters, for installations where the distributor was the RP before the rule change. The AER process needs to be public and informed by submissions. Additionally, the AER needs to be required to consider the impact of the proposed exit fees on development of the smart metering market.

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

Transparent and reasonable distributor exit fees are essential for competition in metering services to develop. Distributor's exit fees should be cost based, differentiating between customers with interval metering (Type 5) or basic metering (Type 6) if costs differ. We note that this may provide an incentive for distributors to roll out Type 5 meters to consumers in their networks. If this is considered to be a significant risk then the rules could be amended to permit distributors to install meters only in new and replacement situations.

Exit fees for smart metering provided by the competitive market will be agreed in contracts struck between metering providers, retailers, and end customers (as applicable).

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

We consider that appropriate governance would be provided by a committee or working group of the Australian Energy Market Operator (AEMO) and industry stakeholders.

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?

Yes. Simply Energy is not aware of any credible alternatives. AEMO is a key industry body with responsibilities and expertise relating to metering and smart metering.

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

A national new and replacement policy is preferable to jurisdictional policies. A national policy will give parties considering rolling out smart meters a single model they need to understand when assessing how they will be affected by new and replacement meter requirements.

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

As a transitional measure a ring-fenced entity owned by the appropriate distributor should become the MC for the distributor's AMI meters.

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?

No. The current derogation provides sufficient exclusivity for distributors. Exclusivity should cease when the rule commences, so that other parties can compete with the distributors for the MC role.

Giving distributors an additional period of exclusivity is unnecessary and will only add further costs to customers and reduce the choices available to them, in a market where energy-related services are expected to develop. Distributors do not need a further period of exclusivity to ensure that they remain 'financially whole', as this will be achieved through AER-approved reasonable exit fees.

If the AEMC considers instead that a further period of exclusivity is required, this should be defined in the NER once it has passed the test of meeting the National Electricity Objective (NEO).

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?

If distribution businesses are to take on the MC role then it should be as ring-fenced entities.

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.

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?

Yes. Ring-fenced entities would need to be established by the date the rule commences.

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. We do not consider that there is any value in developing and managing a process to appoint another party as MC in these cases, when the current metering arrangements are backed by contracts and are likely to be reverted to by most customers and retailers.