

7 March 2014

Mr John Pierce
Australian Energy Market Commission
PO Box A2449
Sydney South NSW1235

Dear Mr. Pierce,

RE: Supplementary paper: regulatory framework for open access and common communication standards (Ref EMO0028)

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide feedback in response to the Australian Energy Market Commission's (AEMC) Regulatory framework for the open access and common communication standard review supplementary paper (the Supplementary Paper).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the national electricity market (NEM) and are the first point of contact for end use customers of both electricity and gas. As our members are considered one of the primary parties involved in the roll out of smart meters under a market led approach, we strongly recommend that the AEMC has due regard to the individual submissions of our members to the Supplementary Paper.

As a member of the stakeholder advisory working group, the ERAA has always emphasised that the overarching principle that must govern the development of a framework for open access and communication standards be based on sound commercial practice. A market led approach is heavily dependent on capital investment and therefore any party that has made that initial capital investment in a smart meter roll out is responsible for and has the incentive to provide access to its meters or risk having their meter (and capital investment) churned. The ERAA believes that under a market led roll out the right commercial incentives and competitive forces will be in place to deliver efficient outcomes relating to open access. As such, we have always advocated that open access does not require, and should not assume, any particular technology or the point in the communications and data processes where this is enabled. The market will naturally choose efficient outcomes. It is with this overarching principle that we provide comments to the Supplementary Paper.

Regulation of access and accreditation

The ERAA has consistently advocated for deregulation where competition is effective. Open, competitive energy markets free from distortions and unnecessary regulation naturally will encourage an efficient metering market to evolve in Australia. Competition in metering services based on commercial drivers incentivises businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings on to consumers.



The ERAA therefore strongly supports the Supplementary Paper's draft recommendation that the access to smart meter functionality should not be subject to regulation; and that a competition review should be undertaken at an appropriate time to assess the effectiveness of the smart metering market. As highlighted in our submission to the Draft Report, until there is proven market failure the need to regulate access or charges is not warranted.

In the context of a market-led smart meter roll out, we consider regulated access charges introduce an unnecessary additional risk factor that is outside participants' control. If regulation in access charges is set too high, the benefit of the services enabled by the smart meter may not outweigh the costs. If the regulated charges are set too low, some parties may receive short-term benefits although the primary party rolling out the meters (in this case the retailer) may no longer be able to justify the internal business case to roll out smart meters to its customer base. Where access charges are not regulated, each participant is able to negotiate charges relating to their particular needs.

Distributor access to smart meter functionality

As distribution businesses are generally the current Responsible Person for Type 5 and 6 metering installations for small customers, they recover asset costs through network charges. Similarly, under a market led approach the participant responsible for the meter asset should be entitled to recover metering asset costs from parties accessing services from their meters, which would include not only retailers, but also distribution businesses and third parties. As smart meter functions related to network management are of limited use to other market participants, the ERAA would not support other participants subsidising the operation of network businesses.

As noted in the Supplementary Paper, distribution businesses put forward a view that they should have access to a defined level of "basic" smart meter services free of charge¹. The ERAA supports the AEMC's recommendation that distribution businesses should negotiate and pay for access to smart meter functionality on a commercial basis, and should not be entitled to a defined level of "basic" smart meter functions free of charge, beyond those currently defined by Chapter 7 of the National Electricity Rules (NER). These "basic" functions are in fact new functions enabled by smart meters, and as distribution businesses have not previously relied on these functions on a broad scale for managing their networks, and considering competitive neutrality, distribution businesses should not be entitled to access to these functions free of charge.

The Supplementary Paper correctly identifies that distribution businesses are able to share in the benefit of efficiency gains obtained from services enabled by smart meter deployment. For example, the ERAA understands that under the Efficiency Benefit Sharing Scheme (EBSS), if a distributor can provide the required service at a lower cost than that funded by the AER under an approved revenue allowance it benefits by keeping the difference for a defined period. For example, enabling customer supply restoration using "basic" functions such as remote outage detection, instead of through the use of existing truck rolls.

The ERAA assumes that distribution businesses, like most commercial entities, would account for the costs associated with accessing smart metering services for a defined network benefit. If the costs of services facilitated by smart meters outweigh any perceived benefit, then the distribution business can continue to manage their network as they currently do, or seek alternative means to obtain the desired network benefit. Metering

¹ Note that the term "basic" used throughout this submission refers to the list of smart meter functions categorised as basic functions in page 13 of the Energy Network Association's submission to the Draft Report 30 January 2014.

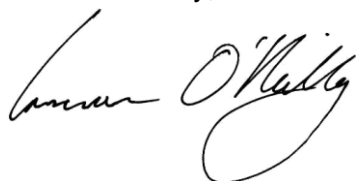
Coordinators (MCs) will seek to maximise revenue streams, meaning they are incentivised to offer these services on commercially acceptable terms to distribution businesses. As noted by the AEMC, “MCs that set access prices too high risk losing a revenue stream that may assist to underpin and de-risk their business model.”² As such, claims made by some distributors that services would be provided to them on uncommercial terms are unsound.

Accreditation

The ERAA supports the AEMC’s recommendation that persons responsible for managing access to smart meter functionality should be accredited by the Australian Energy Market Operator (AEMO) under the NER.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia

² AEMC (2014), *Framework for open access and common communication standards, Supplementary paper - regulatory framework*, p.23