



4 June 2014

Ms Lisa Nardi
Senior Advisor
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement, Project Reference ERC0169

Dear Ms Nardi

Consultation Paper: National Electricity Amendments and National Energy Retail Amendment (Expanding Competition in Metering and Related Services) Rule 2014

Origin Energy (Origin) welcomes this opportunity to respond to the Australian Energy Market Commission's (the Commission's) consultation paper on rule changes to support the expansion of metering competition and associated services.

Origin was involved in the *Power of Choice* (PoC) review led by the Commission and supports many of the outcomes relating to competitive provision of smart metering. While we are not supportive of all of the changes proposed by the Council of Australian Government's Energy Council (herein the EC, previously the Standing Committee on Energy and Resources) we are sympathetic to their underlying motivation. However, we consider that the problems they seek to address may not require immediate changes to the rules.

Origin supports the following policies, many of which we have advocated for over a number of years:

- The effective deregulation of metering services (type 5 and 6) and appointment of a Metering Coordinator (MC), where cost effective to do so;
- Unbundling of meter costs (provision and data acquisition and management) from distribution use of system charges;
- The involvement of the Australian Energy Regulator in determining the fees (should this be the solution adopted when a smart meter replaces a legacy meter) that a distributor may charge on the replacement of a regulated asset with a contestable metering device; and
- The development of a minimal functional specification administered by the Australian Energy Market Operator (AEMO).

In the immediate term, Origin does not believe significant changes to the National Electricity Rules (the NER) are required. Rather, a number of the objectives sought by the EC can be met under the rules (chapter 7 in particular) at present. Where changes are deemed necessary, they may be made at some expense but will be unlikely to yield any benefits in the medium term (for example, customer choice of metering coordinator). Origin supports the concept of the metering coordinator but believes that its introduction should take place in a manner that complements the evolution of the market for competitive metering.

We are also concerned that changes to the rules may allow for material differences in jurisdictional policies on new and replacement metering policies. This will affect the economics of any roll out as a patchwork approach across jurisdictions will impact upon a business case to deploy smart meters, which will typically require significant scale to be viable. Should new and replacement meters

dilute the scale of an addressable market for a commercial deployment of smart meters, this will obviously reduce the likelihood that smart meters are deployed in material numbers in particular jurisdictions. The risk of varying levels of meter functionality (and by extension service levels) across jurisdictions will limit product choice for consumers and the ability for retailers and other market participants to offer cost-effective products and services at scale.

With respect to metering charges, Origin does not support an outcome that would involve separate itemisation of metering costs on customer electricity bills; however we believe retailers will take steps to make cost information available to customers seeking it. Retailers are best placed to determine the means of communicating costs associated with smart meters and any steps to mandate the form of communication will increase costs without improvements in consumer benefits. This is particularly the case with electricity bills, which already contain a large amount of information. Adding the costs of smart metering to this will further complicate bills and limit retailer's ability to package information that is important to customers.

A key objective of any smart meter deployment would involve the delivery of smart meter infrastructure and core functionality at no additional cost to consumers (in order to secure an opt-out adoption). Where smart meter and related service costs exceed existing basic metering costs, customers should be free to select such an option if they attach benefits to doing so. Origin believes that smart meter costs can be communicated to customers via online sources and targeted means. Adding such information to a bill would not cater for the range of circumstances that customers may be faced with and will result in costly changes to national billing and customer relationship systems.

For the minimum functionality specification, Origin believes that an outcomes focussed, nationally consistent core set of capabilities ought to be supported. Where additional, non-core services are sought (for example power supply monitoring services for distribution businesses or direct load control for a third party business), the metering coordinator (and more likely the metering provider [MP]) and access seekers will have incentives in a competitive metering environment to come to commercial agreement on the delivery of these services.

In relation to transitional arrangements, it is recommended steps be taken to prepare for the end of the jurisdictional exclusivity derogation in Victoria to align with the rule changes to facilitate metering competition proposed by the EC.

Origin responds to issues and questions contained in the consultation paper below. If there are any matters raised within this response that the Department would like to discuss further with Origin, please contact me in the first instance.

Yours sincerely

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1. SCER's assessment of how the changes would promote the National Electricity Objective and National Energy Retail Objective (section 3.3)

Origin does not agree that the metering coordinator (MC) role of itself is necessary to reduce the risk of meter churn.¹ Retailers have consistently pointed out that routine churn of meters on change of retailer is not a commercially viable outcome. These views should carry significant weight, since retailers and meter owners bear the most risk of inefficient meter churn in a contestable metering market. That this view has persisted since the beginning of the Victorian Advanced Meter Roll Out (2006) and the National Cost Benefit Study for smart meters (2007) is a source of frustration for retailers and meter vendors alike. The MC role in a competitive smart meter market is likely to be frequently taken on by a retailer (as the financially responsible market participant [FRMP]) in any event. The key factor minimising meter churn on change of retailer is the likely separation of meter ownership from the retailer's interests (the services the meter delivers) as the MC or Responsible Person (RP) today.

2. Efficient provision of metering and related services (chapter 5)

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

Origin supports the criteria set out in section 4 of the consultation paper. With respect to the proposed assessment of consumer protections, if the MC role is required in the near term, Origin would support the scope of consumer protections extending to situations where the customer seeks to appoint the MC themselves. Furthermore, the MC should be subject to consumer protections if not already covered as a registered participant (e.g. as a distributor or retailer) and subject to the National Energy Consumer Framework (NECF).

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

There will be competition benefits associated with allowing any party to take on the role of MC as this will increase the number of participants and allow retailers and distributors to delegate the role where this is considered appropriate. The responsibilities and liabilities (legal and financial) of third party MCs must match those of MCs who are associated with market participants in order to maintain a level playing field in the competitive market.

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 deliver?

Combining the MC responsibilities with metering provider (MP) role would not enhance competition (though not doing so does not prevent the MC and MP being the same entity). A further alternative to creating the MC role would be to delay the introduction of this function until an identified demand for participants other than existing RPs is evident. Establishing the MC role will involve significant changes to AEMO's systems and B2B procedures. As the market evolves, changes to systems and

¹ AEMC (2014), *Consultation Paper - National Electricity and National Energy Retail Amendment (Expanding Competition in Metering and Related Services) Rule 2014*, pages 24 & 34.

procedures should take place when it becomes clear that third party MCs not seeking to offer services through existing RPs intend to enter the contestable metering market.

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

Origin's understanding is that for distribution and retail businesses, to the extent they perform the role of MC, the registration requirements relevant to the RP would apply in essentially the same way. This would require minimal change to the rules and accreditation requirements are borne by the MC's (RP's) appointed MP and meter data provider (MDP). Third parties should be registered and accredited under the NER to ensure uniform oversight and application of rules and standards to the MC role. We note that this does not mean the MC would be subject to the same prudential requirements that a retailer would be as an energy trader in the NEM. Rather, the registration would reflect the nature of the MC role and its relevant responsibilities and liabilities.

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

Origin believes that the failure of a MC would result in some complications; however, the administrators of the failed MC should be required to work with all of the retailers involved and their respective MCs in order to support an orderly transition.

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

RoLR arrangements need to accommodate the new role of MC if created. The last resort retailer would need to take on the MC responsibilities to limit impacts on customers. At present, a failing retailer will generally not be the RP (this will most likely be the distributor) and the incoming retailer will be served under the standard or alternate control service made available by the distributor for customer and metering type. If the MC of the failed retailer was an independent party, commercial agreement should be relied on in the first instance with respect to the MC role. If the MC of the failed retailer was part of its business operations, it is likely that a process similar to that discussed in question 5 above will need to be followed.

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

Changing the NER to allow individual jurisdictions to prescribe one or more, or a class of MCs to exclusively undertake this role, would seem to have merit in relation to type 6 metering installations. However, Origin considers that that making such a rule contravenes the principle of national consistency and the efficiencies brought about by common rules for consumers and market participants. Furthermore, the purpose of the rule change is to enhance competition. In this regard, Origin does not believe a rule change is required to specify exclusivity. This is because distribution businesses, as the default MC for type 6 meters, are highly unlikely to be challenged by any participant that could viably take on this role.

With respect to unmetered loads (type 7 meters), over time there is scope for metering technology to be added to these loads and Origin would recommend that rule changes not be made that may discourage innovation in this area.

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?

As noted above, prescribing MC exclusivity is unlikely to provide the certainty that would otherwise be furnished by market realities anyway. Given distribution businesses become the MC for meters for which they are presently the RP, it is unclear how accommodating jurisdictional differences via the NER will further any particular objective in the context of competitive metering.²

3. Roles and responsibilities between parties (chapter 6)

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

Origin supports an opt-out model where the customer is charged no more than they currently pay for regulated meter charges. In terms of changes to services, if there are no changes that take place without customer agreement, Origin considers that retailers are best placed to determine customer preferences and communicate information in a way that is relevant to them. It is very likely that retailers will present information on services and costs associated with smart meters on their websites and make the same information available to customers on request.

We believe it is best for market participants to make offers to customers that utilise the services that may be enabled by functionality inherent in a smart meter. Where the installation of a smart meter will result in higher costs and changes to existing services, Origin believes opt-in would be required for retailers, distribution businesses (and appointed MCs) and third-party MCs.

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?

If the direct impact of the installation does not result in an increase in cost or a change in meter services for an individual customer, opt out provisions should apply. Opt-in for this, and for the scenario discussed in response to question 9, would result in prohibitively expensive processes that would delay the development of the smart metering market and impact on costs to customers.

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?

² Standing Committee on Energy and Resources (2013), *Introducing a new framework in the National Electricity Rules that provides for increased competition in metering and related services- Rule change request*, page 11.

Origin believes there is no case to regulate the way retailers communicate metering charges to customers. Competition among retailers will determine the most efficient and effective means of conveying this information. For example, Origin does not consider that mandating the provision of meter cost information on bills (for any type of meter) would be effective (it is not a requirement today where customer choice of meter is available). As discussed elsewhere, it is highly likely that retailers will provide information voluntarily (e.g. via their own websites) to allow customers the ability to assess the costs (if any) to them. Furthermore, if the presence of a smart meter affords additional products and tariff structures, retailers will have an incentive to present this information to customers also.

However, if a MC is a third party that is not connected to a retailer then there will be an obvious need for them to communicate the costs associated with smart metering. In such circumstances, the retailer will no longer be passing through the distribution businesses' meter charges and this will be reflected in the customer's retail 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?

It is Origin's firm view that the relationship between a retailer and a MC (or for that matter a distributor and a third party of ring-fenced MC) should be based on commercial arrangements. We do not support the suggestion that a standard contract be developed in absence of evidence that a retailer is unable to secure a commercial agreement with a MC. A standard contract will regulate a minimum set of terms and conditions that will limit the incentive of market participants (including the MC) to innovate. We do not believe inserting principles for a standard contractual arrangement in the NER is required.

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?

Origin supports the principle that customers be able to choose their MC, however we would caution against significant amendment to NER in the immediate future and would suggest a gradual transition to support direct customer choice of MC as demand for this evolves over time. If a third party MC wishes to offer smart meters and related services directly to a customer, then changes to the rules should be implemented ahead of this. We are not aware of any significant entry of third party MCs that would require a change to the NER (and by implication B2B and other procedures) at present.

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

All relevant consumer protections should apply equally to direct and indirect customer relationships with MCs. If smart meter service delivery via a retailer or distribution business will be covered by the NECF, the same provisions should apply to third parties providing services to preserve competitive neutrality and ensure consistency of customer protections. Equally, privacy obligations should apply on an equal basis, regardless of how the MC is engaged by the customer (directly or indirectly).

4. Network regulatory arrangements (chapter 7)

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

While Origin acknowledges that the AER has taken significant steps to unbundle metering charges (for both the provision of the asset and metering reading and data services) over time, the structure of the resulting alternative control or negotiated services can preserve cross-subsidies (e.g. smart meter charges are common across distribution networks in Victoria for customers with identical connection characteristics, regardless of location). It is likely to be impossible to fully isolate residual cross-subsidies and the removal of costs that remain included in use of system charges; however, the AER will need to consider the optimal allocation of costs to ensure that unbundled charges are not inadvertently diluted through the retention of some costs standard control services.

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

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

In the event exit fees are to apply to regulated (type 5 and 6 meters, see discussion below), the AER is the appropriate body to determine these. Where the meter is unregulated and operated by a MC competing in the smart meter market, commercial negotiation should determine any fees for asset replacement.

Any exit fee will act as a deterrent to a market led roll out. While it is recognised that distribution businesses need to recover the cost of regulated metering assets being replaced by third parties, excessive exit fees will limit the scope of a market-led roll out. There may be alternatives that ensure distribution businesses recover sunk costs associated with asset replacement, without the need to allocate these costs directly via a prohibitively high exit fee. Origin would welcome further discussion with the Commission on these.

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?

In competitive smart metering environment, there are a number of ways that smart meters can be deployed to support a regulated demand-side participation program. Further regulation under the NER should not be required; however, where a distribution business seeks to deploy smart meters as part of a DSP program, the following principles should apply:

Scenario	MC	Opt out required?	Ring fencing required?	Meter cost oversight (customer)	Opt-in for tariff or load control features?
New meter	Distributor	Yes	Yes	Unregulated	Yes
New meter	Retailer/third party	Yes	No		
Use existing smart meter	Distributor	Yes if upgrade required	Yes		
Use existing smart meter	Retailer/third party	Yes if upgrade required	No		

While a proposed DSP program may demonstrate distribution network wide benefits, customers under the proposed rule approach cannot be compelled to have a smart meter upgraded or installed for the first time under a proposal.

Distributors already seek competitive offers for the delivery of services under a regulated DSP program and this approach should continue under the proposed changes to the NER and NERL. If robust ring-fencing is in place, the distributor's related MC (and MP and MDPs) may deliver the service if this is the most efficient option. However, other MCs active in the market should be provided with the opportunity to make an offer to fulfil the services and functionalities sought for a DSP program and the selection made by the distributor should be scrutinised by the AER to ensure that regulated cost recovery is being spent in the most efficient way. In all cases, the delivery of a DSP program via competitive smart meters would take place on commercial terms with respect to the distribution businesses' engagement with the MC.

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

DSP proposals have the potential to increase the commercial viability of existing or planned deployments of smart meters by engaging another user of the services available. The price offered for services to support a DSP program will be set at the most efficient level if the smart meter market is competitive. It is for the distribution business to determine the optimal approach to spend regulated DSP funding and the competitive market should support this.

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?

Existing ring fencing provisions do not contemplate the creation of the MC role. Origin believes that industry, consumer groups, the Commission and the AER ought to work through the implications of this jointly in a wider working group.

5. Minimum functionality specification (chapter 8)

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

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?

Origin supports AEMO developing (in close consultation with affected stakeholders), publishing and maintaining any minimum functional specification. We do not believe that the specification will preserve the complexity contained in the Smart Meter Infrastructure Minimum Functional Specification (SMI MFS).

Detailed technical specifications should not be the focus of a minimum specification, but rather the core services provided under such a minimum. In a competitive metering environment, a genuine minimum set of services is possible, whereas the SMI MFS reflected a maximum set of functionalities, in the context of a mandated roll out and available technical knowledge at the time it was developed.

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?

Origin does not support the development of unique specifications by jurisdictions as this will create significant barriers to a market-led roll out. There is a significant risk that a new and replacement meter fleet will not offer the same services (and service levels) or cost that alternative MCs may provide. Furthermore, it is not clear why customer needs would vary significantly across different jurisdictions (noting that legacy load control is likely to be supported). In our view, to the maximum possible extent, smart meter capabilities should be consistent across jurisdictions. A 'smart ready' meter for example may not provide services compatible with those provided by a retailer's chosen MC. The risk of inconsistent policy in this area therefore is to impact the costs of a market-led roll out and risks stranding new and replacement meters that may have been installed recently.

Information on the replacement schedule for existing meters and details for new installations should be made available by the distribution business to MCs, in order to provide an opportunity for parties other than the distributor to install a smart meter on an opt-out basis.

6. Transitional and implementation arrangements (chapter 9)

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

Origin agrees that it is appropriate that the Victorian distribution businesses assume the role of MC for smart meters that they have deployed. However, in becoming the MC, we do not think this should result in these distribution businesses having the exclusive right to perform this role. The nomination of the Victorian distribution business as MC should be a formality and this should take place when the derogation ceases to have effect or new rules come into force (whichever occurs first). It should be

noted however that the labelling of distributor as MC (or the FRMP as MC where applicable) in many respects is no different to the role the RP performs today.

Given the (second) jurisdictional derogation applying to Victoria has been in force for some time, Origin would support more focus on transitioning to an environment of metering competition. While recognising this is not a decision the Commission can make on its own, we raise this matter as a risk to long term effectiveness of the competitive smart metering market (for example, if the derogation had to be extended for a third time).

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?

See our response to question 24 above.

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

If the cost of all meter provision for small customers (types 4-6) is deregulated, Origin believes that the MC role should be ring-fenced from the regulated arm of the distribution business, in order to provide certainty for participants that the market for smart meters and related services is competitively neutral. Victoria's smart meters are a unique case, because although they are specified as type 5 in the market, their characteristics are essentially the same as type 4 meters. Deregulating the price of these meters and their related services would support competition. Maintaining regulation will potentially distort a future competitive market for smart meters for small customers in Victoria.

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?

Where the distributor (or retailer) is currently the RP, it is appropriate they take on the role of MC. It is important to note that in many respects, these two roles are equivalent today and the MC should not take on the role of "gate keeper" of smart meter functionalities and congestion management; this should remain the responsibility of the MP.

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?

If the costs of all meters, metrology and related services are deregulated, this would precipitate a need to ring fence metering activities from the regulated business of network entities. This would provide certainty for those engaging in the competitive metering market. Origin would welcome further discussion ring fencing for type 5 (non-Victorian advanced meters) and type 6 meters as the continued economic regulation of these assets has implications for unbundled metering charges and associated exit fees.

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?

Consistent with our response to question 27, Origin believes it is appropriate that a retailer become the MC for meters for which it is currently the RP. This approach also supports a minimalist transitioning in the NER and is supported by the existing ring fencing in place between retailers as RPs and their respective MPs.

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

Origin has noted potential changes to the NECF that may be required to support the entry of third parties and the Commission notes the numerous other work streams associated with this rule change. Origin agrees that amendments will be required to the metrology procedures, B2B procedures, the Market Settlement and Transfer Solution and AEMO guidelines.³ Victorian-specific instruments will need amendment or transitioning provisions to the NER and NERL to support the sun setting of the jurisdictional exclusivity derogation in that state.

³ AEMC (2014), op. cit., page 67-69.