

No 1, Martin Place
SYDNEY NSW 2000
GPO Box 4294
SYDNEY NSW 1164
AUSTRALIA

Telephone	+61 2 8232 4502
Fax	+61 2 8232 6013
Internet	www.macquarie.com.au

11 October 2012

Mr Eamonn Corrigan
Project Leader
Australian Energy Market Commission
PO Box A2449

SYDNEY SOUTH NSW 1235



Dear Mr Corrigan

**SUBMISSION TO 'POWER OF CHOICE REVIEW' DRAFT REPORT AND
SUPPLEMENTARY PAPER**

On the 6 September 2012, the Australian Energy Market Commission (AEMC) released its Draft Report '*Power of choice – giving consumers options in the way they use electricity*' ('Draft Report'). On the same day it also released the Supplementary Paper '*Principles for metering arrangements in the NEM to promote installation of DSP metering technology*' ('Supplementary Paper').

This submission contains the views of Corporate and Asset Finance Group ("CAF") only. CAF is one of six operating groups within the Macquarie Group ("Macquarie").

Macquarie is a global provider of banking, financial, advisory, investment and funds management services. CAF specialises in lending and asset finance, engaging Macquarie Bank Limited's balance sheet to provide tailored finance and asset management solutions.

CAF has been involved in the competitive metering market in the UK since its inception in 2002, as both an adviser and an investor. CAF currently own a portfolio of over six million traditional and smart gas and electricity meters, and has invested and arranged over GBP 700 million into the deregulated UK metering market. CAF has drawn on this experience when preparing this submission.

Generally we support the recommendations of both the Draft Report and the Supplementary Report. We believe that providing consumers options in the way they use electricity via Demand Side Participation ("DSP") will deliver significant benefits. In our view the 'Contestable roll out' model, in which metering provision is open to competition among AEMO approved service providers, should be preferred.

Addressing some specific matters raised in the Supplementary Paper:

- We support initiatives that make it easier for consumers to make informed decisions in managing their electricity use and controlling their bills by being able to access Demand Side Participation ("DSP") products and services.
- We support the establishment of a competitive framework in the smart meter market to encourage commercial investment in metering in order to promote better value solutions and consumer choice.

- We agree that minimum smart meter functionality for residential and small business consumers should be agreed and implemented.
- We support the view that any smart meter rollout and management under a contestable model should be led by energy retailers who understand their customer's needs and requirements; essentially mirroring the UK "supplier hub" model.
- We agree that an energy retailer should be able to contract with any approved metering provider, whether for metering services or meter funding.
- We agree that a consumer should have the choice to contract directly with a metering provider if they choose to do so.
- We disagree that a minimum functionality smart meter should be required to be installed in certain situations (refurbishment, new connections and replacements). Rather, we believe this should be left to the discretion of energy retailers.
- We believe that network businesses should only be able to provide smart meter solutions in their own territories, through competing with commercial providers to win energy retailer metering contracts. This is consistent with the proposed contestable market under an energy retailer supplier hub model.
- We agree that metering costs should be unbundled from DUOS charges.
- We recommend considering alternatives to implementing a standard exit fee to remove network meters, such as allowing network businesses to recover their investment in existing traditional meters through their 'poles and wires' charges.
- We agree that when a consumer changes retailers for supply of electricity, they should not be required to change meters unless the new energy retailer has a specific commercial reason to do so. It is important though that the market should be an interoperable one where energy retailers can read any installed minimum specification smart meter.
- Based on CAF's UK experience, we believe that there will be sufficient competition in metering services providers and funders to facilitate and support the contestable roll out of smart meters. We believe encouraging such competition will deliver greater innovation and efficiencies.
- CAF's view is that the proposed contestable model led by energy retailers will mitigate all material risks and will encourage an efficient rollout to the benefit of consumers.

Clarification on Specific Points of Disagreement or Alternative Solutions

1. **In a competitive energy market where energy retailers are competing to deliver the best value proposition to win and retain customers, our view is that the energy retailers should have the absolute discretion as to which customers should have smart meters installed, as opposed to mandating installation in specific situations.**

In our experience, the funding and large scale roll-out of smart meters is a complex logistical and technical process. Consideration should be given to a broad range of capabilities, from providing fully trained installers to the availability of supporting communications infrastructure and systems. Mandating the installation of smart meters, in what may for example, be actually small numbers across broad geographic regions, could lead to an inefficient use of resources and result in uneconomic decisions for the energy retailers, and potentially disadvantaging certain classes of consumers.

2. **We believe the energy retailers should lead any smart meter rollout, not a distribution network.**

The potential issue with a network providing a smart meter solution is it may implement a solution on what the network provider needs from a smart grid perspective. This may not align to what an energy retailer and/or the consumer ultimately needs or wants. This may result in the smart meter having to be replaced by the energy retailer, and with the consumer ultimately bearing the cost.

An additional issue relates to the potential misalignment of how networks and energy retailers are remunerated. Networks are remunerated on their level of investment, and consequently their interests are not necessarily aligned with those of an energy retailer who may be trying to provide a more innovative or more cost effective solution. We believe that networks should operate in a competitive market model on the basis of pitching their solution to energy retailers in competition with other commercial providers.

3. **We support the view that a minimum smart meter functionality specification should be agreed for residential and small business consumers.** However it is important that key stakeholders such as the networks gain access to this process to ensure that the minimum specification addresses a balance of needs including those specifications that allows agreed and reasonable smart grid benefits to be realised by the networks.
4. **We recommend that further consideration be given to the most equitable way to compensate networks for their investment in existing and in place traditional meters.** We are concerned that linking a specific fee to the de-installation of these meters may have the effect of delaying the take-up of smart meters, principally due to the perceived additional cost of financing the legacy meters.

A potential alternative is for agreement to be reached with networks at a regulator level on what their investment exposure is, and how it is calculated and monitored on an ongoing basis, in the event of a smart meter rollout. The networks could then recover their investment return shortfall by agreeing an increase in "poles and wires" charges for the appropriate period of time.

We believe this will have the effect of allowing energy retailers to make a decision on whether to install smart meters for their customers, without having to be concerned about additional legacy charges that would be directly linked to the removed meter. The current proposed fee model may actually encourage energy retailers not to be a "first mover" in installing smart meters due to a concern they may be exposed to a disproportionate amount of the costs to be recovered.

5. **We believe that a competitive business model that encourages energy retailers to deliver the best value for consumers including minimising stranding costs would be optimal.**

CAF's view is that the higher value will be delivered to consumers when energy retailers operate in a market of inter-operable smart meters where energy retailers are able to fully utilise the functionality of all installed smart meters that meet the minimum specification standards to reduce the risk of stranded meters. Whilst accepting that stranded meter costs should be avoided, energy retailers must have the option to remove installed smart meters based on their knowledge of consumer requirements and individual business cases. Whether retailers pay a premature replacement charge to the meter provider to remove a smart meter before the end of its useful economic life, should be a business decision that the energy retailer will have to make with each potential meter provider.

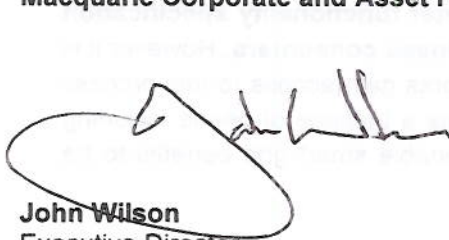
In Conclusion

Based on CAF's experience in the UK competitive metering market, we believe that consumers will be given greater power of choice and options in the way they use electricity when relevant reforms are undertaken to introduce a 'Contestable roll out' of metering.

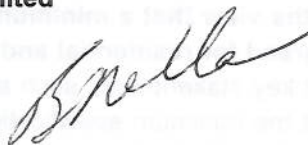
We would be pleased to share our experiences from the UK contestable metering markets and we are keen to work with stakeholders on the detail and practicalities involved in moving to an efficient contestable market.

Yours sincerely

Macquarie Corporate and Asset Finance Limited



John Wilson
Executive Director
Corporate and Asset Finance



Bruce Mellor
Division Director
Corporate and Asset Finance

Appendix 1

Background and Credentials

CAF's Metering business is best summarised in the following key characteristics:

Well Established	<ul style="list-style-type: none"> ▪ UK installed base: over 6 million meters – c.12% of the total UK meter population ▪ UK's largest owner of smart meters: over 500,000 installed smart meters ▪ Over 5.6 million installed traditional gas and electric meters ▪ An experienced team of over 40 people dedicated to meter funding activities
	<ul style="list-style-type: none"> ▪ Funding from Macquarie Bank Limited
	<ul style="list-style-type: none"> ▪ Successful recent record of fully funded deployments, especially for smart meters
	<ul style="list-style-type: none"> ▪ Track record of raising external funds for meter leasing businesses in the UK
Direct Access to Funding and Capital	<ul style="list-style-type: none"> ▪ Track record of industry and long-term commitment - UK metering since 2002 as an adviser and since 2003 as an investor ▪ Largest financial investor in the smart metering market in the UK since 2006
	<ul style="list-style-type: none"> ▪ Operational expertise, supporting systems and infrastructure
	<ul style="list-style-type: none"> ▪ Strong relationship with regulator; extensive experience in Ofgem/DECC consultation processes
Market Leader	<ul style="list-style-type: none"> ▪ Selected independently by two Big 6 suppliers to finance smart meter trials and commercial rollouts in 2011/12 ▪ The only independent meter funder with a specialist meter processing centre to handle the deployment and disposal of new and used meters ▪ Independent of the meter manufacturer, installer, maintainer, head-end and meter data management system
Independent	<ul style="list-style-type: none"> ▪ Strong track record of successfully working with multiple partners, including meter manufacturers and in-house metering service providers and installers

Please refer to Macquarie's website for additional information on CAF Metering:

<http://www.macquarie.com.au/mgl/au/corporations/leasing/energy>