**Vince Graham**
Chief Executive Officer

51 Huntingwood Drive
Huntingwood NSW 2148

Address all mail to
PO Box 811
Seven Hills NSW 1730

Telephone +61 2 9853 6101
Facsimile +61 2 9269 2830

29 May 2014

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW 2000

Dear Mr Pierce

**The NSW DNSPs Response to the *Expanding competition in metering and related services in the National Electricity Market Consultation Paper.***

The NSW Distribution Network Service Providers, Ausgrid, Endeavour Energy and Essential Energy (the NSW DNSPs) welcome the opportunity to provide this joint submission in response to the *Expanding competition in metering and related services in the National Electricity Market Consultation Paper*.

The NSW DNSPs note that the rule change request seeks to implement arrangements that would promote competition in the provision of metering and related services in the National Electricity Market (NEM), with an aim to facilitate widespread investment in advanced metering technologies to support Demand Side Participation (DSP).

The NSW DNSPs support the principles of customer choice and customer enablement underpinned by effective regulatory and market arrangements, including the contestability of smart metering services. We consider that the current metering arrangements, including Type 1 – 4 contestability and the competitive sourcing of meters in combination with unbundling of meter charges from DUOS, are providing efficient outcomes for customers and delivering a reliable, safe and secure network through metering-enabled network and access control[1] functions and services.

We submit that the introduction of a new framework, and the creation of a new Metering Coordinator (MC) role, needs to be assessed against the National Electricity Objective (NEO). This is to determine whether the framework will deliver more efficient outcomes for customers, while also supporting the ability of networks to continue to deliver a reliable, safe and secure network now and into the future. Accordingly, from a DNSP perspective, it is important that the framework:

[1] Access control includes the authorisation of users to metering functionality based on predetermined rules and limits.

- *Maintain existing metering enabled network and access control functions and services.* The framework should explicitly recognise DNSPs' right to retain its meter at the customer's site, where it provides necessary network and access control functions and services (including load control). Accordingly, any existing meter owned by the DNSP should not be replaced without the DNSP's consent.

- *Avoid the potential for the MC to exert market power over network services*. As the DNSP is the only party seeking access to network services for a geographic area, and there is one MC per metering installation, MC's in effect have a monopoly over the provision of these services. As a natural monopoly provider of a service, MC's are likely to have weak incentives to provide access to network services at cost reflective prices. Currently, monopoly network businesses are regulated to avoid the potential abuse of market power. We submit that the market power of MC's should be limited by light handed regulation for metering enabled network services.
- *Allow DNSPs to deploy advanced metering functionality for the provision of network services* in the absence of available and reasonably priced services from an accredited third party.

- *Ensure appropriate compensation for stranded assets*. Stranded assets from the early replacement of a DNSPs meters by other parties within the useful life of that asset must be appropriately compensated.

- *Consider DNSP obligations under the National Energy Customer Framework (NECF)*. DNSPs are responsible for connection and energisation services including initial energisation, de-energisation and re-energisation under the NECF. DNSPs also have consumer protection obligations in relation to these services, including for the management of life support customers. The introduction of a MC adds complexity to these market arrangements in terms of allocating roles and responsibilities.

- *Accommodate the Accredited Service Provider (ASP) in NSW.* Meter installation services for new and upgraded connections in NSW for Type 5 and 6 meters are contestable and highly competitive with over one thousand service providers in the market. Creating a MC role will likely limit the number of providers to a much smaller quantity in a less competitive environment than the current ASP scheme offers.

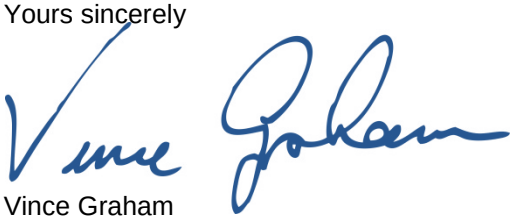
- *Minimise the loss of efficiencies associated with economies of scale in meter reading and provision services.* Type 5-6 meters are currently procured under strategic supply arrangements entered into as a result of competitive tenders. Under these arrangements, the DNSPs are able to leverage off bulk purchasing power to deliver efficiencies; and there are significant economies of scale associated with having one meter reader for each geographic area as it avoids duplication of meter reading routes and unnecessary meter churn. These could be lost if the current regulated monopoly arrangements are removed.

In addition to expanding on these points and addressing the questions in the consultation paper, we would like to address the COAG Energy Council perception that there are a number of regulatory barriers to the competitive investment in metering. The NSW DNSPs believe that many of these barriers are already being addressed (or not an issue) as we demonstrate in the attached submission.

The NSW DNSPs look forward to working closely with the AEMC, AEMO and industry to develop a workable solution that support the principles of customer choice and customer enablement underpinned by a contestable framework with effective regulatory and market arrangements. We have been working closely with the Energy Networks Association (ENA) on this rule change and support and endorse the ENA submission.

If you have any further queries or would like to arrange a meeting to discuss our submission please contact Mr Murray Chandler, Group Manager Network Technology & Innovation at Networks NSW on (02) 9269 7210 or murray.chandler@ausgrid.com.au

Yours sincerely



Vince Graham
**Chief Executive Officer**
**Ausgrid, Endeavour Energy and Essential Energy**

Attachment A: Current regulatory barriers to the competitive investment in metering
Attachment B: Responses to Consultation Paper Questions

**Attachment A: Current regulatory barriers to the competitive investment in metering**

We would like to address the COAG Energy Council perception that there are a number of regulatory barriers to the competitive investment in metering that need to be removed. The NSW DNSPs believe that many of these barriers are already being addressed (or not an issue) as we demonstrate below.

*Different regulatory treatments for different types of meters*

Metering is a long-term asset management task that requires compliance with a wide range of regulatory obligations. Metering assets present particular asset management challenges as they are characterised by high populations that are widely dispersed. Currently for Type 5 and Type 6 meters, DNSPs undertake metering activities based around minimising whole-of-life costs. These activities include procurement, logistics, in-service sample testing, customer requested meter testing, reactive maintenance, performance monitoring, decommissioning, replacement and disposal.

We maintain that for Type 5-6 metering services, there are significant efficiencies associated with economies of scale, along with broader network, consumer and market benefits that would be compromised if the market for these metering services was opened to increased competition (i.e. if the different regulatory treatments for different types of meters were removed). A move to a contestable metering provision model has the potential to create structural inefficiencies and increase the cost of metering services. For example, under a contestable model, regulatory functions would be dispersed across the NEM resulting in higher total maintenance costs (in conducting the tasks identified above) due to the loss of economies of scale and duplication of systems across different metering providers in a given area.

Regardless of the model adopted, an essential element of a market structure designed to support investment in metering is that it protects the benefit of the investment once it occurs. That is, once a market participant (whether they be a DNSP or a third party) installs a meter, market arrangements need to protect the benefits provided by the investment. The current regulatory treatment for different types of meters better achieves this outcome.

*Meter charges are bundled with distribution use of system charges*

The NSW DNSPs submit that there are currently no regulatory barriers to unbundling meter charges from DUOS charges. The AER can make the determination in the Framework and Approach (as part of the regulatory determination process) about which services it will regulate and the broad nature of any regulatory arrangements (including whether metering services should be unbundled from standard control services). In NSW, the AER has already classified metering services as alternative control services for the regulatory period 1 July 2014 – 30 June 2019 which results in meter charges being unbundled from DUOS charges, from 1 July 2015

*Customers already have the option of upgrading their metering capability*

The COAG Energy Council argues that the existing arrangements in the NEM are inhibiting investment in the provision of metering technology that can support the uptake of a range of new and innovative energy products and services. However, we would submit that customers already have the option of upgrading their metering capability to Type (4) contestable metering but few do so because of the limited benefits currently on offer. Additionally, where meter charges have been unbundled from DUOS charges (i.e. NSW from 1 July 2015) a customer or retailer seeking to invest in advanced metering services will be able to avoid the existing basic metering charges and eliminate any final impediment to competitive customer choice.

For customers to see benefit in a smart meter they must be able to access additional value. The most immediate form of value a customer can seek is their ability to control their energy and network supply costs. Much of this pricing benefit is available to customers via interval Type 5 meters.

*A lack of clarity and transparency regarding exit fees*

The NSW DNSPs submit that there is no lack of clarity and transparency regarding exit fees. In NSW, the AER has a role in determing the exit fees because it has classified Type 5-6 metering services as alternative control services for the 2014-19 regulatory period. In our regulatory proposals to the AER we outline our proposed exit fee and criteria, which the AER will assess as part of the regulatory determination process. We submit that this process provides sufficient regulatory oversight and results in a clear and transparent process for all parties.

*No minimum specification that sets out a common set of requirements for smart meters*

The NSW DNSPs note that while there is currently no common set of minimum functional specifications (MFS) enshrined in the Rules, there are no regulatory barriers for providers and manufacturers to develop a MFS for smart meters. We would submit that if regulatory arrangements are to be put in place for a MFS it would be reasonable for AEMO to be charged with this responsibility to include a MFS in a Procedure or Guideline that is referenced in the Rules. This Procedure or Guideline must be structured to ensure future innovation in metering technology and application is not inhibited. In this regard, AEMO should apply the Rules Consultation Procedures for the development of the MFS.

*The roles and responsibilities of various parties should be clarified*

We note that the COAG Energy Council is seeking to clarify the roles and responsibilities, particularly in relation to new functions that can be provided by advanced meters. We submit that much of this work will be undertaken by AEMO who have been given the responsibility to develop the proposed shared market protocol, in consultation with interested parties, by February 2015. We also understand that the AEMC will develop a draft market protocol rule change at the time of the draft determination of this rule change. We believe the shared market protocol will potentially address any perceived deficiencies in this area as long as there is appropriate consultation with industry.

**Attachment B - Responses to the Consultation Paper Questions**

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

*NSW Accredited Service Provider Scheme*

The NSW DNSPs request that the AEMC give consideration to the competition implications arising from this rule change in relation to the NSW Accredited Service Provider Scheme (ASP). Meter installation services for new and upgraded connections in NSW for Type 5 and 6 meters are contestable and highly competitive with over one thousand service providers in the market. Creating a Metering Coordinator (MC) role will likely limit the number of providers to a much smaller quantity than the current ASP scheme offers. This is likely as a large MC may be more inclined to enter into contractual arrangements with larger state-wide ASPs to centralise its installation costs and minimise administration.

Another important issue to consider is that most ASPs can offer a one-stop-shop for electrical services. If a customer requests an ASP to rewire their house, the ASP can carry out the rewiring of the installation, replacement of the overhead/underground services mains and upgrade the metering at the same time. If the ASPs are prevented from providing meter installation services, they will have to inform the customer that they will need to engage a MC to arrange for the metering installation. Engaging multiple parties to carry out work that was once carried out by a single provider (or person) is potentially inefficient and not in the best interests of the customer and would most likely increase the costs to customers as two parties now need to be engaged to provide the same service.

*NEM compliant metering in rural and remote areas*

As noted in the consultation paper, for residential and small business consumers using manually read interval meters (Type 5) and accumulation meters (Type 6), the role of the Responsible Person (RP) currently lies with the Local Network Service Provider (LNSP). One of the important benefits of this arrangement is that it has allowed for sites which are not "'profitable" from an economic point of view to have a NEM compliant metering installation installed.

The NSW DNSPs are concerned that the proposed rule change has not sufficiently considered the implications for these types of sites, in particular for rural areas in which MCs or Financially Responsible Market Participants (FRMPs) are unwilling to supply metering services for commercial reasons. We are concerned that contestability may result in MCs "cherry picking" the profitable sites to the detriment of less profitable sites.

The NSW DNSPs consider that services which have been identified by DNSPs as essential services should continue to be recovered as a metering charge by the entity responsible for the metering and metering data activities (currently the RP). Charges for additional or advanced services should be regulated to address the potential issue of monopoly prices being charged for these services. These essential services are discussed further in our response to question 3.

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

The NSW DNSPs have reservations with regard to any party being a MC. This is because the MC has no financial interest in the accuracy, operation and timely delivery of data of the metering installation. To illustrate, once the MC has arranged for the installation of the metering installation, they receive payment from the NEM registered party (for example, the Retailer) and continue to deliver metering

data to the NEM. Other than AEMO audits and compliance obligations under the Rules and associated procedures, the MC has no legitimate financial interest (beyond losing its accreditation) in the performance and accuracy of the metering installation as they will continue to receive payment from the NEM registered party. In contrast, the current RP (either DNSP or Retailer) has a financial interest in the ongoing performance and accuracy of the metering installation as it is crucial to its revenue.

In addition, as noted in the AEMC Consultation Paper, the role of the RP has traditionally been separated from that of the MP to ensure independence and competitive arrangements between the party responsible for end-to-end metering services and those who provide the metering installation itself. This avoids the conflict of interest associated with a retailer being responsible for metering where settlement by difference means that the site also impacts the settlement of their competitors.

The AEMC will need to consider these competitive arrangements, particularly as we note that from the perspective of selecting the party carrying out the metering for the site, all three models presented in the Consultation Paper are essentially the same - the Retailer (FRMP) being the default selector of the MC.

*The costs of competition may outweigh the benefits*

In terms of competition, as the market for Type 1-4 metering services is contestable it is instructive to look at this market to ascertain what is likely to happen if metering Type 5-6 services were to be made contestable. In the Type 1-4 metering services market, the Rules provide that the Retailer is the RP, unless it requests the LNSP to be the RP and an agreement is reached in accordance with clause 7.2.3 of the Rules.

One of the main effects of contestability in the Type 1-4 metering services market is that it can drive higher prices through unnecessary meter churn. For example, if as a result of a customer changing its Retailer, the Metering Provider (MP) changes, the new MP will replace the customer's meter, irrespective of whether the meter needs changing. The cost of replacing the meter is included in the metering provision service fee charged to the Retailer (which ultimately is passed on to customers).

DNSPs currently perform a considerable amount of manual work to ensure meter data and associated records are appropriately aligned where the physical meter change date differs from the date of the change in Retailer. Currently this work is sustainable as the volumes in the metering Type 1-4 market are small. However, given the volume of 5-6 metering installations, contestability in this market would significantly increase the costs of providing metering services; currently, Type 4 metering costs per metering point are on average at least five times more expensive that for a Type 5 site, even though the physical meter unit used may be the same.

Another factor to be taken into account when assessing the impact of moving Type 5 to 6 metering services to contestability is that one of the potential effects may be a lessening of competition in the market. As a change in Retailer that requires a change in MP requires customers to replace their meters, this ultimately assists Retailers in their retention strategies. These issues would need to be carefully weighed and considered with other factors before a policy decision is made (and the Rules amended) to open up the RP function for Type 5 to 6 metering services to competition.

In the current regulated environment, there are also synergies between Metering Data Provider services (MDP) provided by network service providers (in their capacity as the RP) and network billing requirements which create network efficiencies. In a contestable market, the network would need to obtain the meter data reads from the MC's metering data service provider and would still need to process that data for network billing purposes.

The current regime avoids the need for double-handling of the data which would be extensive in the mass market. Meter reading costs are a component of the costs of providing MDP services in NSW. These costs would be ameliorated if smart metering was introduced given its remote reading capability. In the absence of smart metering, if metering Type 5-6 services were to be made contestable, the costs associated with manual local meter reading may increase substantially. Currently, economies of scale available to network service providers mean, meter reading services can be sourced under competitive tender arrangements and meter reading routes can be planned to maximise efficiencies. Multiple Retailers with multiple MDPs in a network area would lead to inefficiencies in meter reading services as meter reading routes would be duplicated, thus increasing costs.

While the NSW DNSPs support customer choice, we are concerned that the introduction of the MC role may potentially create confusion in the market. In this respect we note the AEMC's NSW Retail Competition Review Supplementary Report found that "The research suggests that many small NSW consumers are not confident that they have the right information to choose an energy plan that suites their needs"[2]. Given that the COAG Energy Council wants the framework to be simple and practical, care will need to be taken to ensure that the customer side of the equation, i.e. the customers experience is front of mind in this rule change proposal.

For example, the main component of metering provision service costs attributable to customers is in the area of meter installation (which are already provided contestably in NSW); and most of the remaining activities in meter provision and meter data provision services (other than the meter unit itself) do not have a sufficient nexus with individual customers.

In light of the matters outlined above, we find it difficult to identify any discernible benefits or clear rationale to support moving away from the current monopoly arrangements for metering Type 5-6 services in NSW, particularly as there are substantial economies of scale if all meters within an area are read by a common service provider.

Additionally, a DNSP should be allowed to deploy advanced metering functionality for the provision of network services in the absence of available and reasonably priced services from an accredited third party.

**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?**

The AEMC/COAG Energy Council have proposed significant changes to the way metering operates in the NEM. While there are likely to be alternatives preferable to creating a separate MC role, a full cost benefit analysis should be conducted by the AEMC to determine if the proposed changes to the contestability arrangements are to be of benefit to customers and the market relative to the counterfactual. This is particularly important given the proposed model will impact on network related functions which are critical to all end use customers. We outline our concerns below.

We understand that networks will need to negotiate in good faith with MCs to obtain network related functions and that the MC will charge the network for access to these functions. However, the COAG Energy Council has indicated that direct load control (i.e. controlled load tariffs currently offered and

[2] AEMC 2013, Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales, Supplementary Report: Increasing consumer engagement, 31 October 2013, Sydney, p i.

controlled by networks) must be retained so that networks have the ability to manage demand on the network.

DNSPs require access to data and network control functions in order to meet licence conditions to ensure the safe, secure and reliable supply of electricity to end customers. It is therefore crucial that DNSPs are able to access essential services currently provided to registered participants (in the interest of the market) and recovered through annual metering charges from the MC to the customer or retailer. These essential services include:

- meter reads (remote access for interval data);
- existing direct load control (such as ripple control hot water load);
- events and power quality;
- disconnection and reconnection;
- remote meter service checking; and
- loss of supply detection.

The NSW DNSPs are concerned that there is a risk that network businesses may be charged for these network services in an environment where each new MC has an unregulated monopoly for network services. This situation arises because whilst it is fundamental that DNSPs are able to have access to such services, there is less of an incentive for MC's to provide such functions at a reasonable price.

This is because unlike other services, MCs does not need to compete against other MCs to provide network services. As MC's effectively have a monopoly over network services, the NSW DNSPs note that without appropriate regulation of charges there is a risk that DNSPs may be charged inflated prices for access to advanced network services, or even essential services (depending on the rule determination).

**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?**

Yes the MC should be registered under the NER and accredited by AEMO. This would ensure that compliance and enforcement provisions would apply and appropriate assurance of their capability and performance can be met. In addition, the Rules should also state that the MC must also comply with the relevant jurisdictional requirements. For example, in NSW this would mean adhering to the NSW Service and Installation Rules, being accredited as an ASP and authorised with each DNSP as required by the NSW Governments ASP scheme to access the DNSP's network. There are also considerations for the MC role in relation to the NECF, which we address in our response to question 14.

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

The NSW DNSPs consider that there is need for a MC of last resort, however we would caution the AEMC against assigning the DNSP as the default MC of last resort as it cannot be assumed that all DNSPs will be actively involved in the contestable metering market. Those who are not involved,will not have the necessary technology or back-end systems to perform this role. We note that as the proposed arrangements give the retailer the responsibility for engaging an MC on the customer's behalf, then it would also be appropriate that it is the Retailer's responsibility to engage another MC if the MC fails.

We would submit that if a MC of last resort event occurs, it will be a more efficient process to transfer the data and other metering functions and responsibilities to another registered provider if a shared market protocol is adopted as proposed (and endorsed by the COAG Energy Council) in the AEMC framework for open access and common communication standards final report. Without the shared market protocol, it is likely that meters would need to be replaced or that some type of protocol translation developed to enable the MC of last resort to access the meter, which would be a time consuming and expensive exercise.

Nevertheless it will be critical that any MC of last resort arrangement put in place will need to address both network service impacts (operational impacts) and also metrology impacts (delay in billing) that would arise from an MC failing.

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

Refer to question 5 response.

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

We note and support that the rule change proposal includes provisions for jurisdictions to determine their own new/replacement and reversion policies and that jurisdictions will be given the power to allow a particular MC exclusivity for certain types of meters to support the efficient provision of basic metering services.

As noted in Question 1, one key jurisdictional issue for NSW is the impact of this change on the ASP scheme. Under the current ASP arrangements, ASPs install metering at new and upgraded connections as well as make service connections from the premises to the network under a contestable arrangement and are engaged by the customer. Currently there are over 1,000 ASPs registered in NSW. These ASPs are issued meters to install and operate under the LNSP's AEMO accreditation for the installation of the metering. Under the proposed arrangements the MC would engage an AEMO accredited MP for the metering service. This bypasses the current ASPs and risks creating a fractured connection process for the customer, in addition to lessening competition.

We would recommend that the AEMC consult with the NSW Government and the National Electrical and Communications Association (NECA) to develop a NSW solution that will incorporate the ASP scheme.

**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?**

The NSW DNSPs support the ongoing role for networks to continue to offer a basic regulated meter service if the customer or retailer does not require a meter with additional functionality. There are already efficiencies associated with economies of scale in meter reading and provision services. For example, Type 5-6 meters are currently procured under strategic supply arrangements entered into as a result of competitive tenders. Under these arrangements, the DNSPs are able to leverage the bulk purchasing power to deliver efficiencies; and there are significant economies of scale associated with having one meter reader for each geographic area as it avoids duplication of meter reading routes.

The NSW DNSPs' view is that any change in regulatory and market arrangements for Type 5-6 metering services would need to replicate relevant aspects of the current monopoly arrangements in

order to capture efficiencies and economies of scale and to manage the risk of costs in this market increasing to the level experienced by the Type 1-4 metering services market.

The view of the NSW DNSPs is that increased contestability in Type 5-6 metering services market has the potential to ultimately increase the price consumers pay for electricity services. This is because under the current regulatory framework, there are significant efficiencies and economies of scale associated with the Local Network Service Providers' (LNSPs) provision of Type 5-6 metering services under the NER.

An overarching consideration in assessing these arrangements will be to ensure that consumer confidence and existing levels of service are maintained in the transition to the competitive model. Appointing the LNSP as the initial MC for accumulation and manually read interval meters would be expected to limit transaction costs and ease the transition to the competitive model by retaining the existing responsibilities for that metering installation until a retailer or consumer chooses otherwise.

We also note that the framework will be subject to a review in three years. This will require consideration of a number of inter-related issues including the effectiveness of contractual arrangements between service providers and the MC, the level of customer activity and competition in the market, barriers to providers entering, expanding or exiting the market, and most importantly, customer satisfaction with market outcomes.

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

We note that to simplify arrangements for residential and small business consumers, the COAG Energy Council proposes that the standard retail contract under the National Electricity Retail Rules (NERR) would include a clause specifying that the retailer is to arrange metering services on behalf of a consumer (unless the consumer chooses to engage its own Metering Coordinator). In NSW, and as recommended by the COAG Energy Council as a transitional arrangement, LNSPs will be the default MC for Type 5 to 6 meters.

We are likely to recommend to the NSW Government that there is benefit in retaining the existing exclusive arrangements for basic type metering services as a transitional measure. This is because it is unlikely that competition would provide consumers with lower cost metering due to the economies of scale and procurement arrangements currently in place in the NSW DNSPs.

In relation to information and consent requirements, there is currently an issue with customer access to data and the role of DNSPs. Clause 7.7 of the Rules outlines the current parties entitled to receive metering data. Currently customers are only entitled to their metering data through their retailer. However, clause 86 of the NERR states that "a distributor must, on request by a customer or a customer's retailer, provide information about the customer's energy consumption or the distributor's charges...".

We note that this issue will be considered in the customer access to their energy and meter data rule change request currently being considered by the AEMC. The NSW DNSPs support the National Energy Customer Framework (NECF) triangular relationship between consumers, distributors and retailers. In particular, that DNSPs have an important relationship with consumers and should have the ability to provide information to residential and small business customers.

**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?**

One of the challenges of the model and the effect of opt in / opt out provisions is that the Retail contract will not have the same life time as the metering service that has been installed.
A Retailer facilitating the installation of a meter through an MC will be encouraged to build into the retail offering various mechanisms (such as an early churn fee) or build a premium into the retail offering to reduce the risk of losing out on the investment. Further complications arise with the second and subsequent Retailers vying for the customer. Consequently, separating the retail function from the MC allocation function unbundles this and puts the economic decision of having metering installed into the hands of the customer, reducing any complications and distortions that arise from this circumstance.

Further, if the design of the minimum service level functionality is adequately defined and provided by the competing MP's then the incumbent MC will be more likely to be able to attract a longer term metering services contract from the customer and also still support all of the standard retail offerings of the competing retailers. We would submit that if the customer cannot see enough value from the metering services contract, they will pay what is required to churn the MC as well.

**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?**

Yes, retailers should inform consumers of their metering services charges upfront, at the time the contract is entered into, and it should be included on every bill as a separate line item. This would allow consumers to be fully informed and therefore able to compare charges for metering services. It would also introduce transparency as the consumer can confirm if charges for metering services are incorrectly applied when they directly engage a MC themselves, and they can compare what other MCs (including DNSPs) charge (as published in pricing lists) versus what the retailer charges.

**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?**

As noted in our submission to the Framework for Open Access and Common Communication, the NSW DNSPs maintain there is a need for some form of regulation over the provision of basic smart meter functionality (as opposed to new and advanced smart meter functionality). The need for regulation for basic smart meter functionality arises due to the potential that DNSPs may have difficulty in retaining existing network services at cost efficient prices under the proposed metering contestability framework due to market power imbalances. This is because there are weak incentives for MC's to provide network services on a cost reflective basis due to a lack of competitive forces in the market for providing these services. Further, there is uncertainty regarding whether DNSPs will have sufficient counter veiling market power to negotiate cost efficient prices for the provision of network services, particularly where the MC sets the price just below the marginal cost of the DNSP installing a new asset to retain the same level of functionality at the customer's premise.

Given the potential for market failure to arise in providing access to network enabled services and the consequential flow on impacts to customers, the NSW DNSPs consider that it is appropriate to initially impose light handed regulation on access to basic smart meter functionality (i.e. essential services) to preserve existing customer benefits derived from network services. We proposed in our submission the inclusion of a set of negotiating principles in the NER, such as a requirement for MCs to commercially negotiate "in good faith" and "on fair a reasonable terms". The NSW DNSPs also suggested that the

dispute resolution process in Chapter 8 of the NER would be an appropriate mechanism to enforce compliance. While we note that the AEMC ultimately rejected these proposals, there may be an opportunity to re-consider these principles in the context of this Rule change.

**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?**

Retailers should be obligated to inform customers that they have the choice to appoint their own MC and where they are able to obtain a listing and contact information of accredited MCs (for example, AEMO could be responsible for publishing a list of accredited MCs).

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

DNSPs are responsible for connection and energisation services including initial energisation, de-energisation and re-energisation under the NECF. DNSPs also have consumer protection obligations in relation to the management of life support customers. Currently DNSPs have strict notification compliance requirements in relation to these services which are taken very seriously. The concern with the introduction of a MC role in relation to these obligations arises in a situation where an MC (not selected by the DNSP) who has installed a meter capable of remote energisation or de-energisation at a customers premises, decides to de-energise the customer's meter without consideration of the consumer protection obligations enshrined in the NECF. In these circumstances, the local DNSP would have no visibility or control over the disconnection. We would therefore submit that there should be arrangements in place to ensure that the consumer is appropriately protected in any relationship it has with a MC.

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

No, the AER can make the determination in the Framework and Approach as to whether metering services should be unbundled from standard control services. In NSW, the AER has classified metering services as alternative control services for the regulatory period 1 July 2014 – 30 June 2019, with prices charged separately from 1 July 2015.

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

In NSW, the AER already has a role in determing the exit fees because it has classified Type 5-6 metering services as alternative control services for the 2014-19 regulatory period and will determine the prices that may be charged for those services through a price cap from of control.

The objective of an exit fee is to help the LNSP to recover the stranded (sunk) asset costs of its existing meters. The COAG Energy Council notes that an appropriate, clearly defined and transparent exit fee for accumulation or manually read interval meters would be expected to encourage competition and more efficient investment in advanced metering. As such it proposed a set of criteria be established for the AER to have regard to, when making an exit fee determination. Among other things, these include:

- The fee must be reasonable.

- The fee should be based on the average depreciated value of the stock of the DNSP's existing accumulation and manually read interval meters. This is for simplicity and administrative ease, as an alternative to attempting to determine the age of the actual meter at each individual consumer's premise.

- The fee may include efficient and reasonable costs associated with transferring the customer to another MC.

- The fee for Type 5 metering installations may differ from the fee for Type 6 metering installations.

- Where a meter is installed that is not compliant with the new and replacement policy and minimum functionality required by that jurisdiction, exit fees would not apply as consumers have already paid towards the existing metering stock.

In practice, the exit fee should comprise two components, the stranded asset costs and administration costs.

- *Stranded asset costs* is a proportion of the RAB value which is attributed to the metering installation (i.e. NMI) being removed/upgraded. This proportion is simply the RAB value divided by the number of NMIs with a Type 5 or 6 Meter; and

- *Administration* costs relate to the administrative requirement to change records to reflect the changed status (for asset management and billing purposes), the return of the meter and the processing costs of relaying this information.

In preparing our regulatory proposals for the 2015-19 regulatory control period for submission to the AER we have considered these criteria and developed an exit fee with the following characteristics:

- The exit fee allows for the full recovery of stranded costs;

- Historical choices made by NSW DNSPs such as hardware or installation type do not adversely affect the customer;

- Stranded asset costs include both metering assets and supporting assets involved in the provision of metering services;

- The value of the stranded assets is based on the Type 5-6 Metering RAB;

- A removed meter is removed from the Type 5-6 Metering RAB; and

- Operational unit costs are unaffected by minor changes in the number of Type 5-6 Metering customers.

We believe these to be sound criteria on which the AER can make a decision. As such, we submit that this process provides sufficient regulatory oversight and results in a clear and transparent process for all parties.

In relation to the term "Exit Fee" we note that some DNSPs have suggested that a more customer friendly (and accurate description) such as "residual meter charge" or "meter transfer fee" should be used instead of "Exit Fee". There may be merit in this suggestion.

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

An arbitrary cap on fees in not necessary assuming the AER's role in approving exit fees is measured against the above criteria. Moreover, published fees approved by the AER will provide complete certainty and transparency for third parties.

**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?**

DNSPs must retain the right to leave its own devices intact or install its own devices (where increased functionality is required) in the event that either agreement cannot be reached with a MC to provide this service and/or it is more efficient to provide a second device.

In this instance the MC device would be the market metrology device but the DNSP device can provide load control/operational information and or load information for the purpose of calculation of a demand management incentive payment. The cost of this device/service would be recovered under the cost of the demand management program submitted and approved as part of a DNSP's regulatory proposal to the AER or as part of an offset to existing network operational costs.

In this respect, the proposed arrangements should preserve the NECF triangular relationship between consumers, distributors and retailers. In particular, that distributors have an important relationship with consumers and should have the right to provide (and to market accordingly), Demand Side Participation (DSP) management services such as Direct Load Control (DLC) to residential and small business customers.

This is supported by the AEMC Power of Choice Final Report findings[3] '

> '*there will be circumstances when DSP options provide distribution businesses with cost effective options to address specific and localised constraints on the network and deferral of network investment. In these situations, it would be appropriate for network businesses to directly engage with residential and small consumers to deliver their DSP network management services/programs. One example that currently is utilised in this manner is direct load control (DLC).*
>
> *We consider that the existing rules and guidelines applied by the AER could be enhanced to clearly outline the circumstances in which distribution businesses are able to deliver DSP network management services/programs.*'

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

The key requirement is to ensure that other parties cannot remove DNSP assets without its consent and that DNSPs retain the existing right to install DSP network equipment on the meter board (even if in addition to an alternate market metering device).

---

[3] AEMC 2012, Power of choice review - giving consumers options in the way they use electricity, Final Report, 30 November 2012, Sydney p 49

**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?**

DNSPs have been operating in the market since the commencement of the NEM in the capacity of MP/MDP/RP across all retailers with no conflicts of interest arising. Where network businesses undertake activities that are performed by a competitive market, they do so through a separately ring-fenced business unit or entity. This prevents monopoly network businesses from giving priority access, information or cheaper prices to any competitive operations that it has (if any). One key aspect of ring-fencing is to ensure that the revenues earned from a competitive activity are not cross-subsidised from regulated activities. As a result, there is no need for a DNSP as operating as a MC to be undertaken through a separately ring-fenced entity. Current ring fencing guidelines would be adequate.

More detail on ring fencing is provided in our response to question 28.

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

The MFS proposed to be used as a starting point for the new MFS meter is the Smart Meter Infrastructure (SMI) MFS. This specification was based on a network led mandated rollout and therefore the drivers are different to a market led rollout of metering. In addition, The SMI MFS (in its current form) is limited in that that whilst it described metering hardware, it does not describe the broader business requirements. It is the business requirements that need to be defined to achieve the proposed outcome. As such, this specification will require a substantial overhaul to meet any new market led metering goals.

**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?**

Regarding Governance of the development of a MFS, it seems reasonable for AEMO to be charged with this responsibility to include this in a Procedure or Guideline that is referenced in the Rules. However the development framework of this Procedure should include the appropriate subject matter experts with systems implementation experience and field operations experience. This should include representation from existing MPs and MDPs. This Procedure or Guideline must be structured to ensure future innovation in metering technology and its application is not inhibited. We also note that AEMO will have the complementary responsibility of developing the shared market protocol. AEMO will need to actively engage with the relevant stakeholders across the NEM and ensure that transparent and open consultation processes are adopted. This should be achieved by requiring AEMO to follow procedural requirements which as a minimum provide for the same time frames and procedural steps as those currently followed by the AEMC when undertaking a rule change.

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

The NSW DNSPs support provisions for jurisdictions to determine their own new/replacement and reversion policies and decide whether this policy requires meters to meet all or part of the smart meter minimum functionality specification (provided that jurisdictions ensure that essential network services are included in the minimum functionality specification). In addition, we support the COAG Energy Council proposal that jurisdictions be given the power to allow a particular MC exclusivity for certain types of meters (e.g. Type 5-6) to support the efficient provision of basic metering services.

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

No comment.

**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 comment.

**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?**

No comment.

**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?**

As noted in our response to question 23, we support provisions for jurisdictions to determine their own new/replacement and reversion policies and decide whether this policy requires meters to meet all or part of the smart meter minimum functionality specification. In addition, we support the COAG Energy Council proposal that jurisdictions be given the power to allow a particular MC exclusivity for certain types of meters (e.g. Type 5-6) to support the efficient provision of basic metering services.

**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?**

Where network businesses undertake activities that are performed by a competitive market, they do so through a separately ring-fenced business unit or entity. DNSPs are required to submit for approval to the AER for their cost allocation methodologies (CAMs) which detail the principles and policies used to allocate costs between the different categories of distribution services with accounts audited against the CAM provided to the AER each regulatory year.

We also note that the LNSP will become the initial MC for meters for which it is the RP. This means that the AER would retain the ability to regulate fees where the DNSP is also the MC depending on how the AER determined the services should be regulated or controlled. Moreover, the rule change proposal states that when (and if) this arrangement ends, the LNSP may recover an exit fee as determined by the AER. Given the regulatory oversight arrangements, there is no reason to require a LNSP to take on the role as a ring fenced entity.

**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?**

No comment.

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

As noted in our submission to the framework for open access and common communication draft report, from a DNSP perspective, the introduction of contestability in metering and related services will require a number of operational changes to allow alternative MCs to deliver metering services. These changes have the potential to create operational risks for DNSPs in a number of areas, including:

- Current B2B arrangements including notification of energisation/de-energisation for billing purposes - the MC would be required to notify parties of the date of energisation/de-energisation either via B2B or updating MSATS.
- Maintenance of load control services.
- Provision of customer details to the MC needed to meet NECF obligations (e.g. non-disconnection of life support customers).
- Meter replacement interface issues for the new MC.
- Access to meter data and other smart meter functions
- Fault management and notification of planned outage events

We also note that the AEMC has recommended the development of shared market protocol. We believe that this is important because without a protocol, a contestable metering environment can become overly complex to accommodate multiple interfaces to multiple MC's requiring more complicated back office systems and interfaces. This additional complexity is likely to reduce the robustness of the back end systems and if DNSPs are unable to access core metering functions such as load control, this may jeopardise their ability to ensure that their electricity network operates safely and reliably.

We submit that if appropriate decisions are not made regarding the open access framework, the proposed framework for metering contestability is likely to result in undesirable and costly outcomes to both consumers and market participants, and further is unlikely to promote the achievement of the NEO.

As a number of NEM processes and procedures would be needed to support the new framework and because AEMO will have a critical role in the development of the shared market protocol, it will be important that AEMO consults with stakeholders in accordance with the Rule Consultation Procedures.