

4 June 2014

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

Dear Mr Pierce,

RE: Consultation Paper – Expanding competition in metering and related services in the National Electricity Market (ERC0169)

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide feedback in response to the consultation paper on Expanding competition in metering and related services in the National Electricity Market (the **Consultation Paper**).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the national electricity market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The ERAA supports the criteria that the Australian Energy Market Commission (AEMC) will apply in assessing proposed changes to the regulatory framework in the National Energy Rules (NER), and where applicable the National Energy Retail Rules (NERR), to support the assessment of options and issues presented in the Consultation Paper.

The ERAA has based this submission on its interpretation of the how a market driven metering market will evolve. The development of this market is predicated on two parties developing an internal business case to roll out smart meters to customers under an opt-out environment. The ERAA considers that the primary parties involved in the initial investment decision for a smart meter roll out will be either the Meter Provider (MP) or the energy retailer. Yet for every business case there are various impediments that impact the investment decision and if either party considers that there is too much risk, uncertainty or costs then the business case for a smart meter roll out is unlikely to occur.

The Consultation Paper outlines the AEMC's approach to enabling competition in metering and related services. As our members are considered one of the primary parties involved in the roll out of smart meters under a market driven approach, we strongly recommend that the AEMC has due regard to the individual submissions of our members to the Consultation Paper. The ERAA will therefore focus its input on broader policy issues, and understands that this input will help inform discussions envisaged by the AEMC in the workshops it plans to undertake, as part of its Rule change consultation process.



Efficient provision of metering and related services

The role of the Metering Coordinator

The ERAA conditionally supports the creation of the role of Metering Coordinator (MC). The support is conditional if the intent is, as described in the Consultation Paper, to replace the term of Responsible Person to MC, and allow any party to be at least appropriately Registered Participant with the Australian Energy Market Operator (AEMO) to assume this role. The ERAA acknowledges the recognition in the Consultation Paper of the intrinsic role that a retailer performs in today's market. A retailer, as the Financially Responsible Market Participant for a site, is the party that coordinates the installation of the meter and the provision of meter services. It is important for the prudential stability of the National Electricity Market (NEM) that retailers can be responsible for the metering arrangements at a site, if they chose. A meter does not just inform customer bills but settlement between the retailer and the market, and the commercial arrangements between the retailer and the distribution business. Determining the responsibility of the meter is important to market operation and to innovations that benefit customers.

The ERAA however does not support the MC assuming the role of gatekeeper to manage access, security and congestion. This in effect would change the role of the Responsible Person. As noted in our submission to the AEMC review of Open Access and Communications Framework the responsibilities outlined in the Consultation Paper, with the exception of congestion, are covered by the existing Meter Provider (MP) and Meter Data Provider (MDP) roles. The contestable metering market is structured at a granular level today to allow for transparency and competition and the existing AEMO accreditation of both the MP and MDP covers the requirements specified. The ERAA advocates that it is more efficient for any additional requirements to be added to these existing roles, and that AEMO is then tasked to ensure accredited parties adhere to these new requirements. Irrespective as to the approach adopted the ERAA would assume that a thorough cost to benefit analysis would be undertaken to justify a change or enhancement to existing roles and responsibilities in the market.

Exclusivity of Metering Coordinator Role

The development of a market driven environment is predicated on two parties developing a positive internal business case to initially roll out smart meters to customers under an opt-out environment. The ERAA considers that the primary parties involved in the initial investment decision for a smart meter roll out will be either the MP or the energy retailer. Yet for every business case there are various impediments that impact the investment decision. Impediments can either introduce costs, or uncertainty, that introduces unnecessary risk in the development of a business case. This can have a material impact as to whether a party's investment decision in a smart meter roll out is either deferred or prevented.

One such impediment is the proposed arrangement provided for in the Consultation Paper that will allow a jurisdiction to provide an exclusive arrangement to one party for metering responsibility. This introduces unnecessary risk for potential investors in market development. The ERAA is in particular concerned with assumptions made in the Consultation Paper that jurisdictions may reserve exclusive arrangements to one party for meter installations, without much guidance as to why these exclusions are being provided. Whilst the ERAA appreciates that competition in street lighting (for example) may not be perceived to benefit consumers in the **short term**, provisions in the Rules that allow for MC exclusivity will introduce uncertainty in potential investment decisions and impact on potential economies of scale espoused under a market driven approach. Even merely the threat of future exclusions, as was the case when allowing jurisdictional mandates, can impede investment confidence.

Roles and relationships between parties

Consent arrangements proposed

The ERAA supports the consent arrangements detailed in the Consultation Paper. The internal business case for a roll out of smart meters in a contestable market assumes an opt-out environment – where a customer is simply informed of the benefits of a meter upgrade (as is the case today) assuming no change in meter cost or service, and customers have the option to opt out of the upgrade therefore exercising choice. There are significant economies of scale and market efficiencies that can result from an opt-out regime, compared to an opt-in regime. A scenario that requires customers to consent to a smart meter upgrade with no change to service or costs, could change the customer perception of the offer and increase transaction costs, potentially impeding the rollout of advanced metering. In circumstances where there is a change in service or additional costs required than the ERAA supports the continued application of existing explicit informed consent provisions governing market contracts which will ensure consumer protections are maintained.

Standard terms of contract

The ERAA also concurs with the AEMC that the relationship between the MC and related parties should be based on commercial arrangements and negotiation. The ERAA however does not support the introduction of standard contract terms to assist competitive outcomes. Where regulation is considered, then this should only be where there is notable (rather than theoretical) market failure indicated by evidence-based data.

Network Regulatory Arrangements

Unbundling metering charges from DUOS

The ERAA continues to support the unbundling of metering service costs from standard electricity charges. This view is consistent with the approach taken in the AEMC's Power of Choice review final report, where the AEMC recommends:

“... that metering costs (i.e. meter installation, maintenance, and data management services) are unbundled from DUOS. This will allow smart meters to be installed with the consumer being confident that they are not required to continue paying for the existing meter (that was removed) and that they are only paying for the upgraded metering installation. This will also allow the consumer to consider the costs of smart metering compared to their existing metering charges, and to make informed decisions when considering a smart meter upgrade.”¹

The unbundling of all metering charges from DUOS charges, inclusive of ripple control functionality, will:

- remove the significant barrier of customers paying twice for metering and metering services;
- provide customers with more accurate information about costs; and
- improve market transparency to support competition in metering.

We do not support the recommendation to retain existing load management services as standard control services. We consider that access to all metering services should be by commercial negotiation, regardless of whether the party seeking access is a monopoly or contestable provider. Under existing arrangements, distribution businesses make investments in metering installations for which they are the Responsible Person and recover asset costs through network charges. Where another party seeks to utilise one of these meters to offer a service to a customer, they enter into an arrangement with the distribution business for that access.

¹ AEMC, *Power of choice review – giving consumers options in the way they use electricity final report*, 30 November 2012. p.88.

Similarly, under a market led approach the participant responsible for the meter asset should be entitled to recover metering asset costs from parties accessing services from their meters, which would include not only retailers, but also distribution businesses and third parties. Only by unbundling meter charges can this fee for access regime be implemented equitably across all parties.

Although some existing load management services are currently utilised only by distribution businesses, there is nothing precluding the development of new, more efficient approaches to load management offered by other parties (potentially in partnership with distribution businesses) that may eventually supersede existing services. Transparency of the current costs of these services through unbundling from DUOS charges is required for these solutions to be developed and brought to market.

Exit fees

As previously noted the internal business case for a smart meter roll out is predicated on parties initially doing the roll out, under an opt-out consumer environment by developing a business case which over a period provides for a positive investment decision. Irrespective of whether the appropriate regulatory framework is developed for competition in metering and related services, no party will roll out meters if the business case is deemed to be negative, or is considered to have limited shareholder value. As noted before investment uncertainty is a significant impediment in the development of a viable business case – as are excessive upfront costs. One of these costs is exit fees proposed for the replacement of legacy meters.

While the ERAA supports the need for a mechanism to be established for distribution businesses to recover sunk costs on their meter investments, we note that the introduction of an upfront cost such as an exit fee will prevent or at best delay smart meter deployment.

The ERAA has internally developed a theoretical model which highlights the impact that exit fees can have on the investors' internal business case and we would welcome the opportunity to present this to the AEMC.

Ring fencing provisions

The ERAA has always advocated that contestable markets should operate in an environment of competitive neutrality. In our 2012 submission to the AER's review of electricity distribution ring fencing guidelines the ERAA raised concerns that there is increased risk that distributors will subsidise their activities in the retail market with regulated revenue (irrespective of current ring fencing provisions). The ERAA notes that the AER "*has advised that distributors' using regulated revenue to fund unregulated activities is unlawful*".² While current jurisdictional ring fencing measures is one way to minimise this risk, it is the opinion of the ERAA that these are not sufficient to eliminate it all together. The ERAA would recommend that in conjunction with this rule change that the AER completes the review that it embarked on in 2012. The ERAA would welcome providing input into this review.

Minimum functional specifications

The ERAA supports the use of the Smart Meter Infrastructure (SMI) Minimum Functionality Specification (MFS) that was developed by the National Smart Metering program as a **basis** for assisting AEMO, with support of the Information Exchange Committee (or its successor) to inform debate as to the minimum specifications that would support contestability in the metering market.

As noted in the Consultation Paper the SMI MFS was developed for a mandated environment, where recovery of functionality (irrespective of whether there was a benefit or a market for such functionality) was recovered by all consumers through regulated revenues.

² Accenture Final Report: Department of Primary Industries IHD Inclusion into ESC scheme, December 2011, page 85

The ERAA has been consistent in its advocacy of ensuring that any minimum specification that is developed to represent only the minimum services required under a contestable environment.

Jurisdictional minimum specifications

Potential market size is an important factor in developing a positive business case to begin managing small customer metering services or offering products enabled by advanced metering. This is because business efficiencies and economies of scale are more readily achieved in a larger market. Inconsistent jurisdictional policies in minimum functionality specifications can undermine those efficiencies, and where the required economies of scale cannot be achieved, the viability of a business case in servicing one or more jurisdiction may be at risk.

National minimum functional requirements would allow industry to confidently invest in metering provision, associated infrastructure and product development based on those requirements. This establishes the most accessible framework for businesses to enter and compete in metering services and provide the services that smart meters will enable across the electricity market.

The ERAA is aware that AEMO has been tasked to develop national minimum functional specifications that will support the development of a market-led roll out for advanced meter infrastructure. The ERAA urges all jurisdictions to adopt these national specifications rather than the development of jurisdictional policies.

Jurisdictional new and replacement policy

Like the establishment of a consistent and national minimum specification the ERAA also urges the AEMC to consider the requirement that there be a national policy for reversion and new and replacement meters. The rule change request instead provides for jurisdictions to establish their own new and replacement meters without explanation as to why jurisdictional policies are recommended over a nationally consistent approach. This is concerning to the ERAA, as the first policy principle listed in the rule change request to be reflected in the final rule is:

“These rules apply generally across the National Electricity Market (NEM)”.³

We assume that this represents acknowledgement of the benefits of national framework, and yet this is not consistent with the proposal for jurisdictions to have the option to deviate from the national framework in a number of key areas.

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

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia

³ SCER, *Introducing a new framework in the National Electricity Rules that provides for increased competition in metering and related services*, Rule change request, October 2013, p. 25.