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Via online submission

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ERC0169: Expanding competition in metering and related services —Jemena response to Draft Determination

We welcome the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination on expanding competition in metering and related services.

Jemena is an \$8.5 billion company that owns and manages some of Australia's most significant gas and electricity assets, including the Jemena electricity network (JEN) which delivers power to over 330,000 homes and businesses in north-west Melbourne.

We have recently completed the Victorian Government's mandated smart meter or advanced metering infrastructure (AMI) rollout across the JEN with over 98% of customer premises having remotely read smart meters. We are committed to ensuring our customers can benefit from our investment in AMI and the efficiencies that result from us supplying a range of network services and electricity pricing improvement facilitated by this technology.

As one of the most efficient network businesses in Australia, we are also committed to ensuring that all customers can benefit from the scale and scope efficiencies that network businesses could provide if they are incentivised to compete and innovate in this new market alongside other market participants.

For these reasons, we have a strong interest in the review.

The application of competition policy to Australia's energy markets has positively affected the choices and prices paid by customers for energy services and we support the AEMC's vision for metering reforms that emphasise consumer choice and the development of a competitive energy services market. However the policy, regulatory and technical settings being considered by the AEMC, the Australian Energy Market Operator (AEMO) and the Australian Energy Regulator (AER) are most likely to positively affect the choices and prices paid by customers for energy services if they ensure that:

- customers can benefit from our investment in AMI through opportunities to participate in demand-side management and through opportunities for more efficient network operations leading to reduced network charges and improvements in reliability and quality of supply
- network businesses have certainty of cost recovery of expenditure related to implementation and to securing necessary network data

- the market and regulatory design encourages network businesses to participate and innovate in these newly contestable markets for the long term benefit of customers.

CitiPower and Powercor Australia, United Energy, SP AusNet and Jemena Electricity Networks (Victorian DNSPs) have provided a joint submission that addresses these points, and we would welcome the AEMC's continued engagement with stakeholders to ensure the policy, regulatory and technical settings continue to promote the long-term interests of our customers.

We have also contributed and support aspects of the Energy Network Association's submission.

A new national metering objective and/or decision making principles may be useful in guiding the long list of implementation decisions that are required

This market reform involves significant changes to metering roles and relationships and there are ranges of decisions guiding these relationships that will be required to enable implementation.

We believe a new national metering objective and/or decision making principles - based on the National Electricity Objective (NEO) and being fit-for-purpose and effective for the new market paradigm – would assist decision making to enable implementation. In the same way that the NEO is supported by revenue and pricing principles, it may also be appropriate to incorporate targeted principles for the competitive metering market and services (e.g. demand side management). An example might be principles that require MCs to provide metering services that:

- are in the long term interest of consumers
- meet the reasonable needs of Retailers and Local network service providers (LNSPs), and
- encourage smart integrated systems and processes at lowest sustainable cost.

Service continuity, the realisation of AMI benefits and ongoing effective and efficient interaction between LNSPs, retailers and MCs would be enhanced by a number of specific requirements for retailers to provide timely information to LNSPs on the chosen prospective MCs

An ex-ante assessment of the performance of any market is challenging, let alone a new market that involves new providers in new roles.

The AEMC draft determination recognises the challenges in getting the competition and regulatory framework for this new market 'right' and the balance between:

- promoting competitive outcomes reliant on commercial negotiation (and the potential introduction of new players), and free from regulatory distortion
- ensuring there are measures to support LNSPs and other market participants in negotiating the price and non-price terms and conditions with other market participants (including metering coordinators).

We recognise that the AEMC has sought to make an 'on balance' decision in not introducing some form of access regulation or lighter handed market monitoring of the price and non-price terms and conditions offered by metering coordinators. Rather the AEMC has chosen to provide protection to LNSPs by:

- allowing LNSPs to access data from new and existing network devices installed at or adjacent to a metering installation (however, we have identified a number of important Rule refinements that are required to enable the network device to be broadly used to enable the full range of network benefits)
- transitional rules appointing the LNSP as the metering coordinator on and from the effective date of competition
- codifying a future review of the performance of the market.

While not revisiting this aspect of the AEMC's draft decision, we consider that service continuity, the realisation of AMI benefits in Victoria and an ongoing effective and efficient interaction between LNSPs, retailers and MCs would be enhanced by a number of specific requirements for retailers to provide timely information to LNSPs on the chosen prospective MC(s) to enable the LNSP the opportunity to negotiate required services and service measures with the new MC. An independent body to monitor and arbitrate alleged breaches may also provide confidence to market participants.

In our view, these represent a practical and low cost alternative to access regulation in this new market.

AEMC must provide Rules-based guidance to the AER on appropriate ring-fencing arrangements if network businesses are to participate and innovate in these newly contestable markets for the long term benefit of customers

Firms in any market may have a range of advantages over their competitors and broader competition policy does not seek to remove these advantages without an understanding of their impact on the competitive process or the long term interest of customers.

We are concerned that the AER perceives the need for ring-fencing to remove the advantages that network businesses have, in terms of scale and scope efficiencies, to promote competition regardless of the impact on the *competitive process* or the long term interest of customers.¹ This mindset is inconsistent with general competition policy and competitive neutrality principles as noted in the report² of the Competition Policy Review led by Ian Harper AO.

Ring-fencing decisions that unnecessarily create barriers to network businesses competing and innovating in this new market:

- would prevent network businesses from sharing their economies of scale and scope with customers, unnecessarily driving prices towards new entrant stand-alone costs
- reduce the number of players in this emerging market, putting further pressure on the AEMC to regulate the price and non-price terms and conditions offered by market participants to retailers and LNSPs.

The current metering rule change process only highlights the challenges in the AER making ring-fencing decisions which will define the scope of regulation at the company level and ultimately drive the outcomes (with associated impacts on consumers) in this new market.

¹ AER, Position Paper - Electricity Distribution Ring-fencing Guidelines, September 2012, p2.

² Competition Policy Review, Final Report, March 2015, Professor Ian Harper, Peter Anderson, Su McCluskey, Michael O'Bryan QC, page 255 & 256.

To manage this risk and ensure that the metering reforms positively affect the choices and prices paid by customers Victorian DNSPs have recommended that the AEMC should provide rules-based guidance to the AER that it:

- ensures ring-fencing and other regulatory interventions are not designed to remove all business advantages (including scale and scope efficiencies)
- applies best practice regulation to ensure that benefits outweigh costs. This means considering:
 - benefits to customers from the long term efficiency of energy networks (in terms of sharing in the scale and scope efficiencies that networks provide)
 - the costs of implementing operational and functional ring-fencing requirements
 - the types of behaviours that network businesses could engage in that would operate to the detriment of competition and customers in the market, recognising that network businesses would not benefit in the same way as retailers or other parties (in terms of access to information and their competitive position in related markets) from also being the metering coordinator or metering provider.

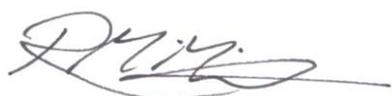
In addition, Jemena has recommended to the Expert Panel reviewing the Governance Arrangements for Australian Energy Markets that 'coverage' decision making functions currently undertaken by the AER be transferred to a new institution, including potentially the AEMC. This would include:

- service classification decisions which determine the scope of regulation at the service level
- ring-fencing decisions which determine the scope of regulation at the company level.

Further detail is in Jemena's submission which is available on the COAG Energy Council website.³

If you wish to discuss the submission please contact Alexis van der Weyden, Manager Regulatory Economics and Policy on (02) 9867 7326 or at alexus.vanderweyden@jemena.com.au.

Yours sincerely



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³ <https://scer.govspace.gov.au/files/2015/05/19-Jemena-non-conf.pdf>