Competition in metering and related services – rule change

Stakeholder workshop 4: Proposed model arrangements (summary)

Wednesday 24 September 2014

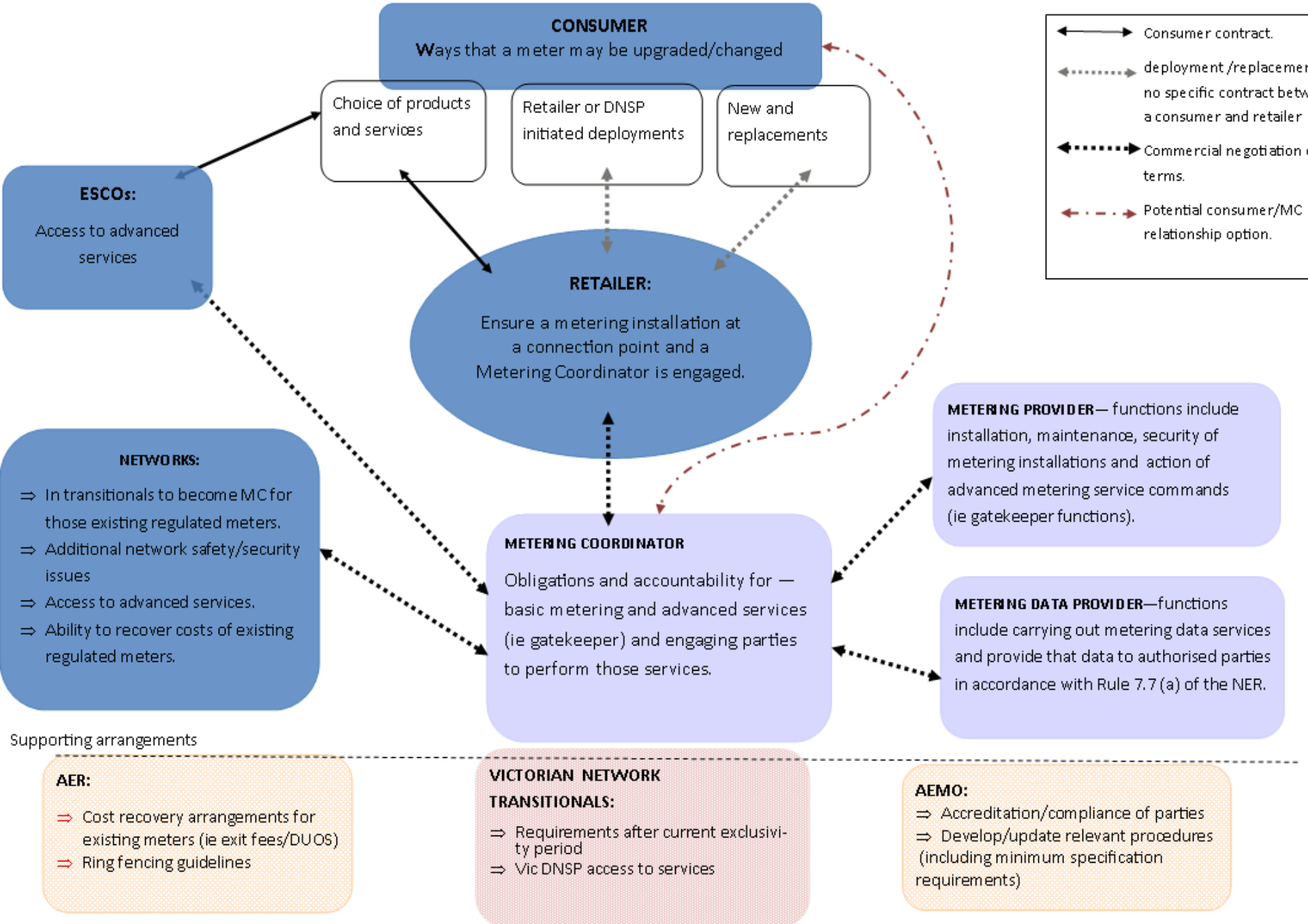
AUSTRALIAN ENERGY MARKET COMMISSION

Introduction

What we will cover at the workshop

- We will provide a summary of our current thinking on the proposed key arrangements for the new framework based on all issues discussed to date at the workshops.
- We will cover:
  - Roles and responsibilities of the relevant parties:
    - Retailer
    - Metering Coordinator
    - Metering Provider
    - Metering Data Provider
    - Network
  - Consumer issues (including engaging their own Metering Coordinator)
  - Network regulatory issues (ring fencing, funding of advanced metering for DSP/network operational efficiencies and cost recovery for regulated meters).
  - Metering Coordinator and its relationship with other parties: access to basic and advanced metering services – is regulation required?

Proposed model arrangements: basic and advanced services

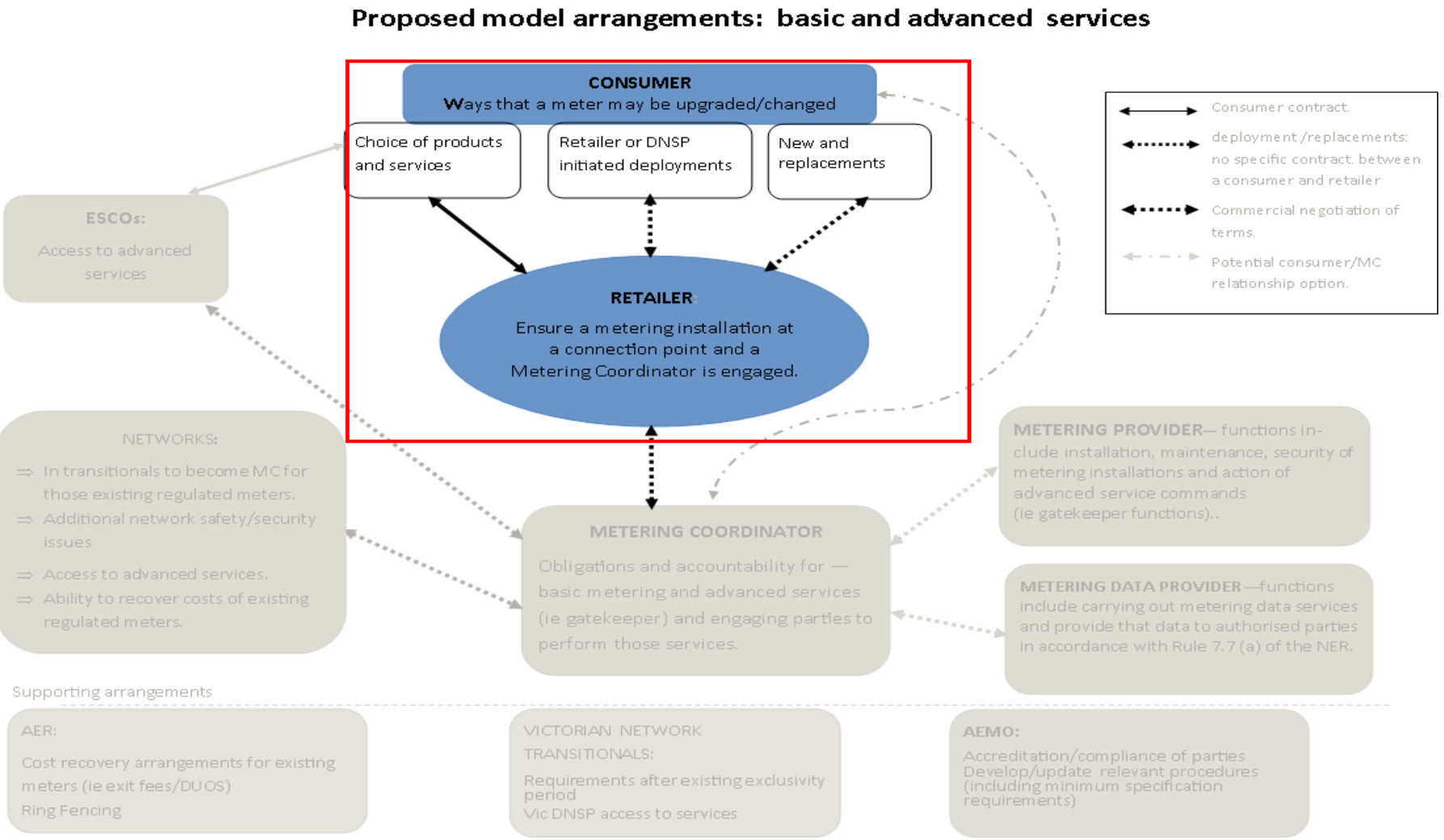


Session 1

Roles and responsibilities:

- **Retailer**
- **Metering Coordinator**
- **Metering Provider/Metering Data Provider**
- **Network (transition and additional issues)**

Retailer role and responsibilities



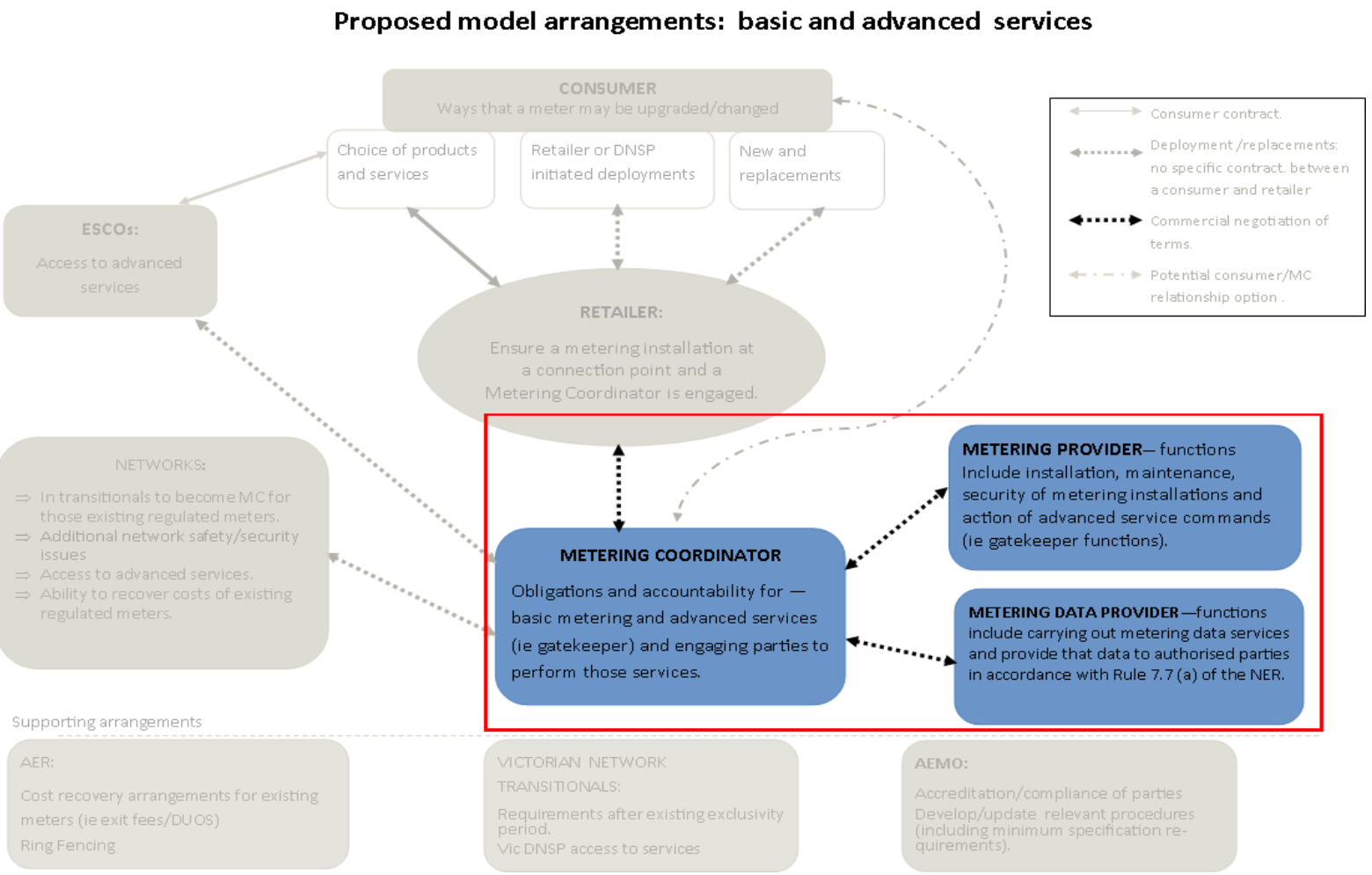
Retailer role and responsibilities

Core obligations	Responsibilities	Existing obligation under Chapter 7 of the NER
Obligation to establish a metering installation	Ensure that a connection point has a metering installation and that metering installation is registered with AEMO.	✓
	Prior to registering the metering installation, a National Metering Identifier (NMI) has been obtained from the Metering Coordinator for the metering installation. NMIs are issued by the Local Network Service Provider (LNSP).	✓
Obligation to engage a Metering Coordinator	Engage a Metering Coordinator for provision of metering services at a connection point (unless a large customer decides to engage their own Metering Coordinator).	Require a change
Payment of metering services	As the consumer's retailer (ie financially responsible Market Participant (FRMP)), payment of the Metering Coordinator for metering services provided to that retailer in accordance with the commercial agreement entered into by the parties.	Requires changes as appropriate

Additional responsibilities

- The retailer (as a Market Participant or FRMP) has other obligations currently under Chapter 7 related to:
  - joint metering installations; and
  - special sites or technology related conditions etc.
- These provisions will be reviewed to ensure consistency with new framework but we do not expect any significant change from current arrangements.
- Supporting and consequential changes will need to be made, as appropriate, to the National Electricity Retail Rules to ensure provisions are consistent with the new framework. These will be outlined in the draft determination.
- Some changes may also be required to the National Electricity Retail Law where it relates to retailer of last report and obligations to provision of metering services (Section 140(2) of the NERL) . The Commission will need to recommended any law changes to the COAG Energy Council as the AEMC cannot affect such amendments.

Metering Coordinator role and responsibilities



The Metering Coordinator - summary

The Metering Coordinator:

- Is not a new role. The Metering Coordinator replaces and expands the role of "Responsible Person" in Chapter 7 of the NER. Responsible Person term changed to Metering Coordinator.
- The role is related to business (contract/risk) management, rather than technical operations. The Metering Coordinator will take on all the existing obligations and functions of the Responsible Person and have additional functions related to the advanced services that smart meter functionality provides.
- Be required to be a Registered Participant. This will require a new category of Registered Participant under the NER and criteria applied for registration.
- Any person who satisfies registration criteria can register to be a Metering Coordinator and perform the role and will be required to comply with the NER and relevant procedures.
- Can take on the Metering Provider and/or a Metering Data Provider roles, although would need to be accredited by AEMO to perform these roles.

Metering Coordinator role and responsibilities (1)

Core obligations	Responsibilities	Existing obligation under Chapter 7 of the NER
Responsibility for a metering installation	Comply with the current provisions in chapter 7 of the NER that relates to the Responsible Person role. This includes for example:	✓
	➢ Maintain obligations for end to end metering and related services (ie integrity of metering installation and integrity/accuracy of metering data).	✓
	➢ Engaging and coordinating the availability, performance and payment of the Metering Provider and the Metering Data Provider.	✓
	➢ Existing obligations related to the metering installation (ie churn, installation malfunction, inspection, testing, auditing etc).	✓
	➢ Notification and information obligations as required by AEMO schedules/procedures.	✓

Metering Coordinator role and responsibilities (2)

Core obligations	Additional Responsibilities (ie gate keeper)	Existing obligation under Chapter 7 of the NER
Existing Load control capability	➢ Ensure that where there is existing load control capability *within the metering installation*, this capability remains operational when meter is changed.	New
	➢ Where there is existing load control capability *that does not form part of the metering installation*, this is retained and only removed with the negotiation of relevant parties (ie DNSP).	Require change
Access to advanced metering services	➢ Accountability for the provision of advanced metering services. This includes validation and action of commands.	New
	➢ Obligation to confirm (or ensure that) appropriate authorisations are in place for service requests.	New
	➢ Accountability for congestion and prioritisation of commands in accordance with AEMO procedures. Note: AEMO would be required to expand/update procedures that set out relevant requirements regarding congestion and priorities (including for emergencies).	Require change

Metering Coordinator role and responsibilities (3)

Core obligations	Additional Responsibilities	Existing obligation under Chapter 7 of the NER
Communication/ cyber security	➢ As a Registered Participant, the Metering Coordinator will need to demonstrate that its IT systems are secure.	Amendment to existing rules.
Registration	➢ Obligation to become a Registered Participant – general requirements include:	New
	– Demonstrate to AEMO that has the relevant capacity to operate as a Metering Coordinator.	New
	– General obligations of Registered participants such as: o confidentiality, o dispute resolution o participation in consultation o payment of registration fees. – Provisions may also include: o insurance o indemnities o option for risk management plans related to ensuring market integrity etc.	New

Metering Provider – responsibilities/functions (1)

Core responsibilities	Functions	Existing obligation under Chapter 7 of the NER
Installation and maintenance of metering installation etc.	➢ Remains responsible for current functions as provided by Chapter 7 of the NER. For example:	✓
	➢ Carrying out installation and maintenance (eg faults/repairs) of metering installations.	✓
	➢ Programming and certifying metering installations to required standards, including providing and maintaining the security controls of a metering installation.	✓
	➢ Installing and commissioning of communications interface for remote data acquisition.	✓
	➢ Existing requirements regarding registration, accreditation and deregistration with AEMO.	✓
	➢ Obligations regarding notification and information requirements to AEMO and other authorised parties required by schedules/procedures.	✓

Metering Provider – responsibilities/functions (2)

- There will be additional functions placed on the Metering Provider as a consequence of the services available from smart meter functionality/capability (ie gatekeeper) .

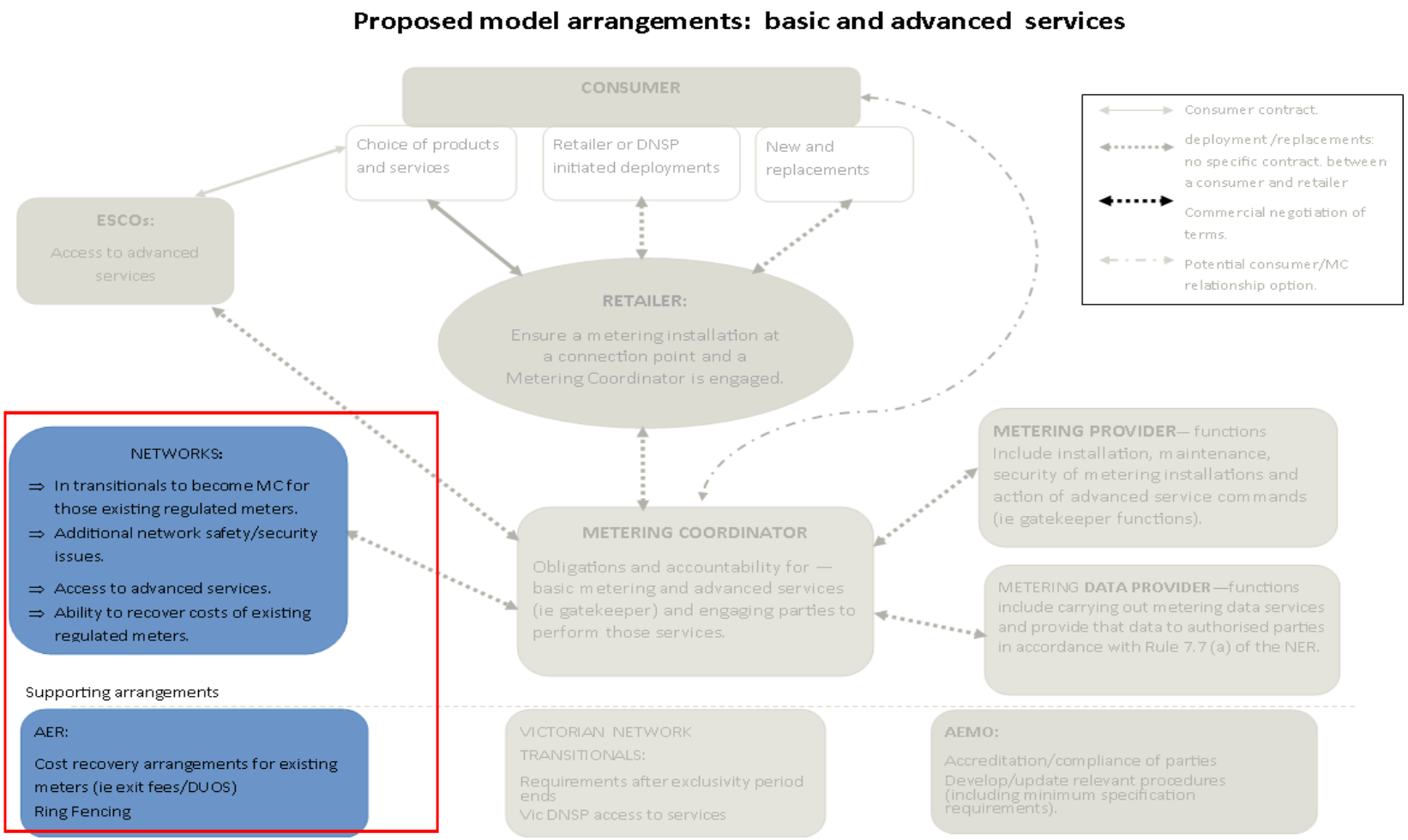
Core obligations	Additional Responsibilities	Existing obligation under Chapter 7 of the NER
Access to advanced metering services	➢ Verify/confirm requests from authorised parties.	New
	➢ Validate compliance of commands/messages received from authorised parties through the shared market protocol or agreed protocol between parties.	New
	➢ Carry out the validated requests in accordance with AEMO procedures (including congestion and prioritisation of requests requirements) and inform authorised parties of action.	New
Registration and accreditation	➢ Comply with updated requirements provided by AEMO in procedures.	✓

Metering Data Provider – responsibilities/functions

- There is expected to be no change to the Metering Data Provider functions as currently provided by the NER.

Core responsibilities	Functions	Existing obligation under Chapter 7 of the NER
Provision of metering data services	➢ Remains responsible for current functions as provided by Chapter 7 of the NER. For example:	✓
	➢ Carrying out metering data services and provide to authorised parties in accordance with the NER.	✓
	➢ Providing and maintaining the security controls associated with metering data in systems.	✓
Notification and information	➢ Obligations regarding notification and information requirements to AEMO and other authorised parties required by schedules/procedures.	✓
Registration and accreditation	➢ Existing requirements regarding registration, accreditation and deregistration with AEMO.	✓

Network responsibilities



Network responsibilities - summary

- Distribution network businesses will no longer be exclusively responsible for provision of metering services for residential and small business consumers.
- As a transitional arrangement, the DNSP would become the Metering Coordinator for existing, regulated meters when the new Rules commence. Ring fencing requirements are discussed on slide 37.
- The distribution network business may choose to establish a competitive Metering Coordinator to compete in the market for metering and related services.
- When a meter is replaced or upgraded (even for new and replacements/faults), a competitive Metering Coordinator would need to appointed by the retailer (or a large customer).
- The retailer could choose the DNSP's competitive Metering Coordinator or engage another party to perform this role.

Note: The network regulatory issues and access to services are discussed in separate sessions.

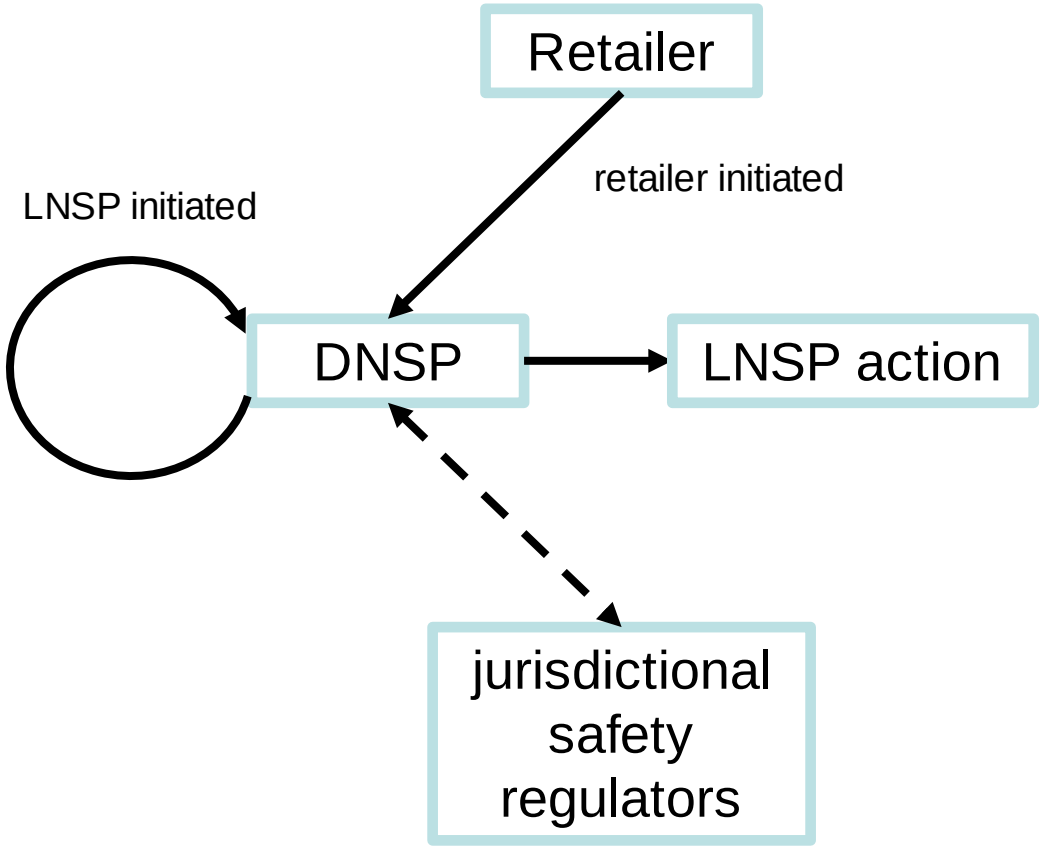
Additional issues considered

- Some concerns have been raised by networks regarding:
  - Potential safety issues and obligations of parties related to advanced metering services - for example when dis-connection/re-connections occurs. This issue is important because remote dis-connection and re-connection will be new functions offered by advanced meters.
  - Network security/reliability issues with actions of Metering Coordinator/Metering Provider – for example, large scale load control impacts network.
- Both require consideration of responsibility and allocation of liability/risks.

Safety issues - Disconnection/reconnection (1)

- Disconnection (also known as de-energisation) refers to the disconnection of supply to a premise.
- Re-connection (also known as re-energisation) refers to the restoration of supply to a premise.
- Disconnection and re-connection services can be provided manually at the premises (eg by the removal of the service fuse) or remotely (usually by a smart meter).
- The consumer protection requirements associated with disconnection and re-connection are defined in the National Electricity Retail Rules (NERR). The responsibility for *performing* these services are placed currently with the DNSP.
- There are a number of safety requirements for disconnection and re-connection that are determined by the jurisdictional safety regulators. These obligations are also placed on the network business.

Safety issues - Disconnection/reconnection (2)



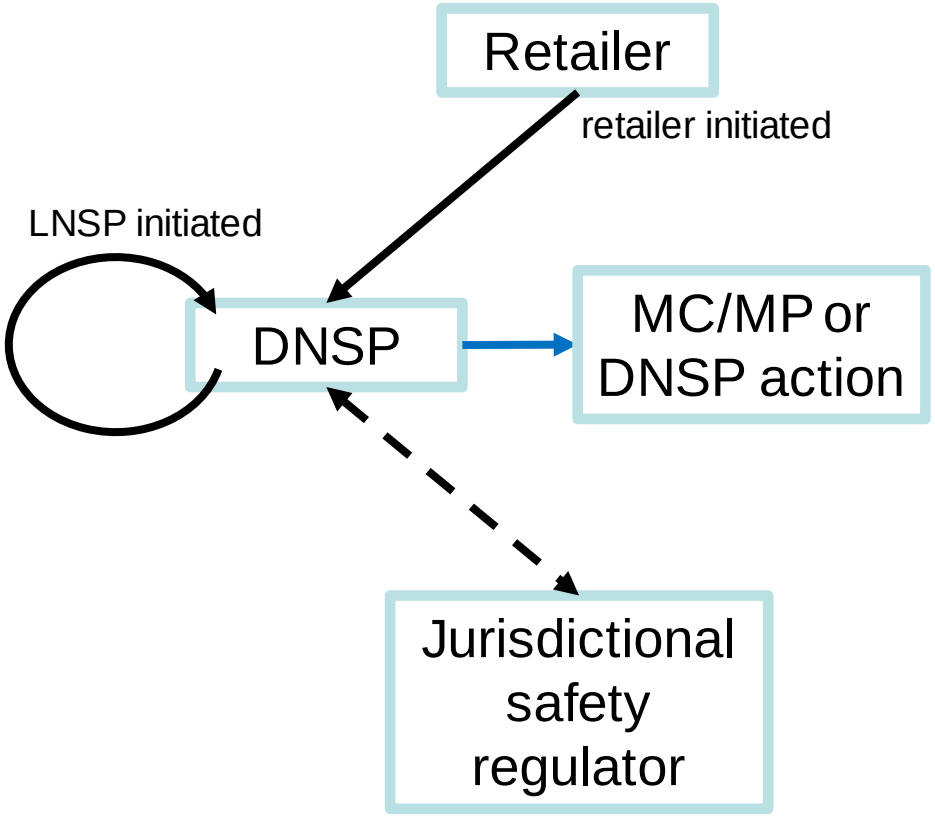
- Under the NERR, the retailer can initiate a request for the distributor to dis-connect or re-connect a premise.
- Under the NERR, the distributor can also initiate a dis-connection or re-connection.
- The distributor (or its agent) performs the service in accordance with NERR and jurisdictional safety regulator requirements.

Safety issues - Disconnection/reconnection (3)

We considered two options regarding this issue:

1. The distributor retains the consumer protection and safety responsibilities as currently required by the NERR and other jurisdictional safety regulators:
   - DNSP negotiates with Metering Coordinator/Metering Provider for provision of the actual services for remote dis-connection/re-connections (ie smart meter enables the provision of services remotely, in addition to locally).
   - Appropriate requirements would need to be considered where MC/MP errors are made.
2. The Metering Coordinator/Metering Provider assumes the relevant consumer protection and safety responsibilities:
   - Retailer would negotiate/request provision of these services from the Metering Coordinator.
   - The DNSP could also negotiate/request provision of these services.
   - Assigning consumer protection on Metering Coordinators will require change to the NERR and safety obligations may also require changes to the jurisdictional safety regulators requirements.

Safety issues - Disconnection/reconnection (4)



Proposed arrangements for consultation

- The retailer continues to initiate its requests (via the DNSP).
- The distributor decides/actions requests and would ask the MC/MP to actually perform the command where it relates to the remote service.
- The distributor could perform service manually where appropriate.
- The distributor continues to responsible under the NERR and jurisdictional safety regulations.
- This is preferred option because the allocation of responsibilities is well defined, while risks can be shared between the DNSP/MC/MP.

Network security/ reliability issues - large scale turn of loads at the same time by MC/MPs

- Concerns raised about the possibility of Metering Providers (at the direction of Metering Coordinator) collectively turning off load at the same time. This could affect network performance (ie cause voltage fluctuations).
- There are number of options that could be considered in regards to this issue:
  - including random delays in the minimum functionality/services specification;
  - requiring the Metering Coordinator to provide information about load under its control to the DNSP;
  - Network businesses and retailers agreeing to a load management protocol; or
  - AEMO, in consultation with stakeholders, include in its procedures arrangements that have regard to such issue occurring.

Network security/ reliability issues - large scale turn of loads at the same time by MC/MPs

- Including a specific technical solution in the NER may not be appropriate as it may need to evolve quickly with changing circumstances
- The issue of loads turning off that may affect network performance is not isolated to direct load control through the meter. There are similar issues that have been raised in regards to solar PV, electric vehicle charging and more recently battery charging.
  - Going forward, there is likely to be the need for a solution beyond just that considered under this rule change
- We are still considering options for the proposed arrangements, including if information/notification requirements on the MC and MP to the DNSP would be sufficient.

Session 2
Consumer issues

Different ways upgrades/change to a meter at a consumers premise.

There are three ways a consumer is likely to have its meter upgraded/changed. These are circumstances where:

- A consumer chooses a product or service and requires upgrade/change to metering.
- A retailer or distribution business decides that upgrades/changes would assist with business/operational efficiencies and contracts with MC for deployment of meters.
- The existing meter fails or is at the end of its useful life and needs replacing.

Retailer and/or distribution business initiated deployments of advanced metering

- The arrangements would include the ability of small customers to opt-out of retailer (or DNSP) initiated deployments.
- The retailer would be subject to certain requirements regarding notification, including:
  - prior written notice/s of the proposed meter change;
  - timeframe (eg 10 days) for the consumer to 'opt out' of the change; and
  - disclosure about any charges as a result. This includes notification of the relevant charges *if a consumer decides to retain* its accumulation meter.
- Where the DNSP seeks to upgrade the meter for DSP or other network operational purposes, the retailer is still responsible for informing the consumer of the change and the same notification provisions would apply.

Ability for a consumer to engage their own Metering Coordinator

- Recap:
  - COAG proposed all consumers should have the option to engage their own Metering Coordinator, with some supporting arrangements.
- Stakeholder views:
  - General support for large consumer to directly engage their own Metering Coordinator.
  - Some divergence of views regarding small consumers engaging their own Metering Coordinator, although majority of stakeholders considered that may be appropriate to let the market develop and review in a few year's time.

Initial issues to consider

- While the principle of a consumer engaging their own Metering Coordinator has merits and would provide choice, we have considered a number of factors as discussed at the previous workshop:
  - What changes are required to the current regulatory framework to implement the direct relationship?
  - What should the features of this relationship be, having regard to the current regulatory framework (ie maintain consumer protections and market integrity)?
  - To the extent additional regulation is required, how should the regulation be implemented?
  - What are the costs and benefits of introducing such regulation at the start of the proposed new rules?
- The next two slides provides examples of some initial issues considered but it is not the exhaustive list of requirements that may need to be contemplated.

Example of initial issues considered (1)

Potential issues	Why	Implications – large customer	Implications – small customer
Requirement for MC of last resort (ie MC default arrangements).	• Basic metering services are essential to market operation (ie for market settlements and billing). • If the MC is unable to provide services (eg becomes insolvent) or there ceases to be a MC at a site (eg for consumer expiry of contract), there will be a need for a MC of last resort required for market integrity. • In such circumstances, the retailer would need to appoint an MC from the market or take on the MC role itself if no other option available.	• For large customers, there is likely to be require some additional regulation required regarding price. • An example is the current rules requirement that requires RoLR prices to be fair and reasonable.	• For small customer, greater regulation will be required. For example, require retailers to specify a standing price which a customer may be able to revert to via retail contract which includes metering services. • This may or may not be the same price at which was originally offered to the customer by the retailer to provide services.

Example of initial issues considered (2)

Potential issues	Why	Implications – large customer	Implications – small customer
Facilitating the market for Metering Coordinator services and potential retailer risk.	• It may be necessary for retailers to offer market contracts that are both inclusive and exclusive of providing MC services. • Therefore, it may be necessary to unbundle the price/s for the MC services. • The retailer may also seek to manage any risks where it is not engaging the MC through contracts. (ie potential risk that retailer does not know when a consumer – MC contract may expire of not be replaced).	• Regulation may not be needed as it is likely that large customers are able to insist upon a retailer providing an unbundled price. • Large consumers are likely to be sophisticated enough to negotiate risk allocation.	• For small customers, it is likely that a regulatory approach similar to example above may be required where the incentives on the retailer are such that they may not structure prices appropriately or incentive to impose onerous terms and conditions etc., ie: ➢ notification of prices where retailer engages MC at start of retail contract; ➢ Notification of prices where customer engages MC at start of retail contract.

Proposed arrangement – large consumers

- The proposed arrangements would allow for large consumers to engage their own Metering Coordinator.
- This takes into account that:
  - large consumers are likely to want to arrange their own metering and related services, and stakeholders are generally not concerned with allowing this.
  - The regulatory changes required are not likely to require significant change and can be done within rule change timeframes.

Proposed arrangement – small consumers

- The option for small consumers to engage their own Metering Coordinator is not included in the core arrangements at this time.
- We propose that we review the option in 3 years when market has had time to develop., with the expectation that it is likely to be added at that point.
- This reflects:
  - The extent of the complexity of regulatory changes that would be required to ensure consumer protections and market integrity.
  - The costs of regulation may outweigh the benefits in the early stages of competition (ie consumer confidence in the market).
  - May introduce significant complexity and may be more appropriate to let the market develop.
  - Not delaying the implementation of the core model.

Session 3

Network regulatory issues

Network regulatory issues

- These slides cover:
  - Ring fencing arrangements to apply when a distribution network business takes on the Metering Coordinator role.
  - Arrangements for a distribution network business to offer payment for metering services to support a demand side participation business case or to manage network performance.
  - Cost recovery for regulated meters (ie exit fee issue).

Ring fencing of DNSP's regulated activities

- Recap of issue:
  - Whether a distribution network business's regulated activities should be ring fenced from its competitive Metering Coordinator, Metering Provider and Metering Data Provider businesses to ensure that there is competitive neutrality in the market for the provision of metering services.

- The proposed arrangements would include and provide the following:
  - **Unregulated metering services** – The distribution network business ***must*** be ring-fenced from its Metering Coordinator, Metering Provider and Metering Data Provider where it chooses to offer competitive metering services.

Ring fencing of DNSP's regulated activities (2)

- **Metering services classified as direct control by the AER.**
  - As part of the transitional arrangements, the distribution network business will be the Metering Coordinator for existing regulated meters.
  - Where those metering services are classified as direct control services at the time the rule is made, the distribution network business would be able to:
    - carry out the Metering Coordinator, Metering Provider and Metering Data Provider functions for the existing meters as part of its regulated business.
    - That is, it will <u>not</u> need to be ring-fenced from these entities.

Funding advanced metering for DSP/network operational efficiencies

Recap:

- Whether the arrangements should not prevent a distribution network business from offering payment for installation of smart meters to support a DSP business case or manage network performance.

Options we considered:

A. Distribution network business provides funds to independent Metering Coordinators under a commercial agreement.

B. Distribution network business provides funds to its Metering Coordinator (as the Metering Coordinator at relevant sites) through an arm's length commercial agreement.

C. Distribution network business carries out targeted installation as part of its regulated business in limited circumstances (i.e. competition not expected to arise for a period and net economic benefit to consumer).

Funding advanced metering for DSP/network operational efficiencies (2)

Funding arrangements where smart meters are not in place

- DNSPs are able to provide funding to Metering Coordinator to help fund installation of smart meters and then have access to those services (ie options A and B).
- No changes are required as this can be achieve under the existing NER provisions/AER process (ie RIT-D).
- Consequently, there does not need to be a provision in the NER for distribution network businesses to undertake their own targeted installation of smart meters, even in limited circumstances.

Funding advanced metering for DSP/network operational efficiencies (3)

Arrangements where smart meters are already in place (access to services)

- There is a question about whether some form of light handed regulation should be implemented to protect networks and, in turn, consumers from any misuse of market power by the Metering Coordinator at least until competition develops and is effective .
- This is discussed in Session 4.

Cost recovery for regulated meters

Recap:

- The COAG Energy Council proposed that the AER should determine a transparent exit fee for regulated, type 5/6 meters so that the distribution network business is reasonably compensated when a Metering Coordinator seeks to replace or upgrade it.
- The rule change request proposed a set of criteria that the AER should have regard to when determining the level of the exit fee.
- At the workshop on 1 August 2014, stakeholders generally agreed that:
  - a distribution network business should be able to recover the residual costs of their regulated metering service; and
  - the AER should have a more explicit role in determining how these costs are recovered.

How much prescription should be in the Rules about how a distribution network business recovers these costs?

Cost recovery for regulated meters (2)

- There are principles in the National Electricity Law and the National Electricity Rules that AER is required to have regard to in any decision on how a distribution network businesses can recover the costs of a regulated service.
- These include:
  - Principles outlined in the National Electricity Objective (NEL, section 7)
  - Revenue and pricing principles (National Electricity Law, section 7A)
  - Distribution pricing rules (NER, 6.18)
  - Rules regarding the classification of distribution services and the control mechanism for direct control services (NER, 6.2).

Cost recovery for regulated meters (3)

- The AER is currently considering cost recovery arrangements for regulated meters as part of the ACT/NSW distribution regulatory determinations.
- It has indicated that the following principles are relevant:
  - Providing for efficient outcomes in the long term interests of consumers (NEO).
  - Ensuring cost recovery for distribution network businesses (NEL revenue and pricing principles).
  - Limiting cross subsidies and improve transparency where this can better inform efficient choices (NEO).
  - Charges that send efficient signals for the use of the network (NER distribution pricing principles).
  - Administrative simplicity.

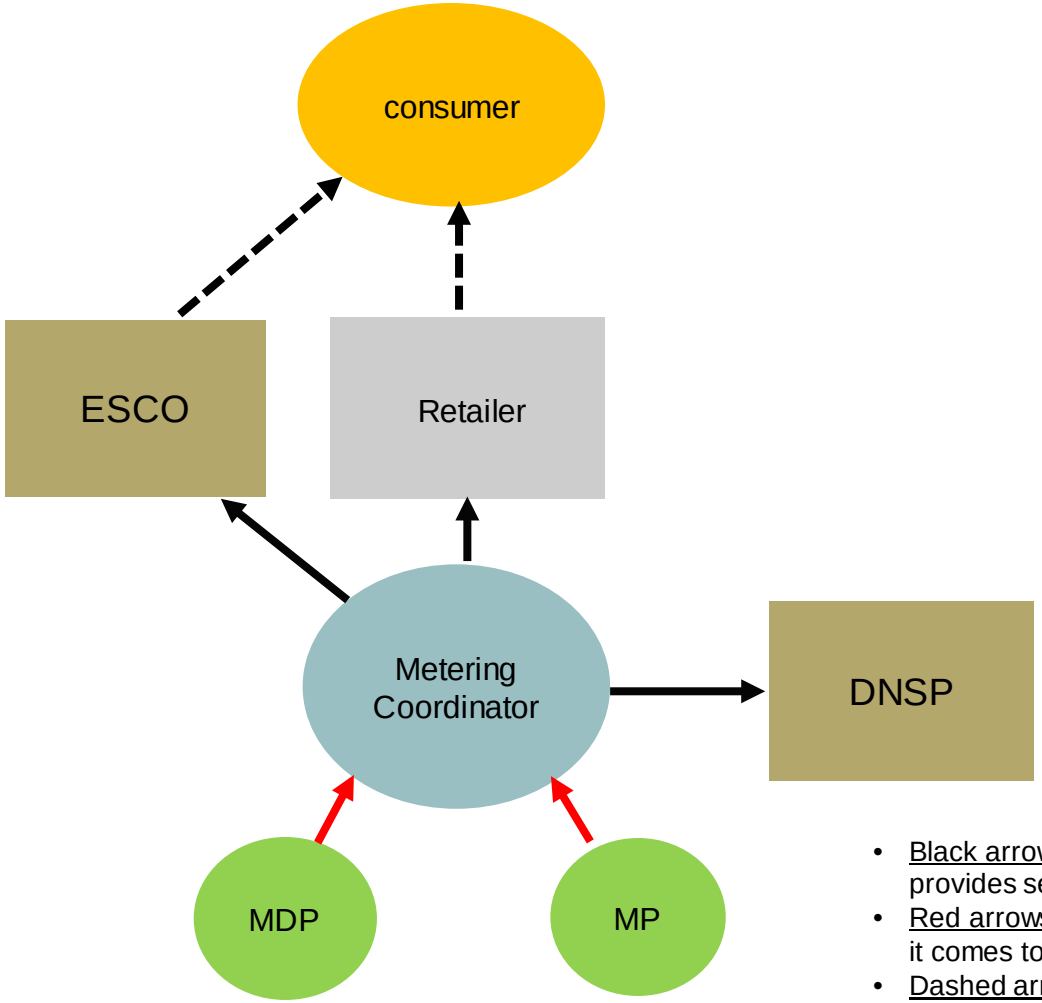
Cost recovery for regulated meters (4)

- We are of the view that additional prescription in the Rules is not needed.
  - The principles already outlined in the NEL and the NER cover relevant considerations that the AER must have regard to when deciding on how costs are recovered.
  - These principles reflect some of the criteria proposed in the rule change request.
- The AER will determine the means by which a distribution network business can recover residual metering costs as part of the regulatory determination process, with regard to the principles in the existing regulatory framework.
- The retailer would be responsible for paying the regulated exit fee (if any, as determined by the AER) when a competitive Metering Coordinator replaces or upgrades a regulated meter.
- Remaining costs would be recovered through the means determined by the AER.

Session 4

Metering Coordinator and relationship with other parties – need for regulation

Relationships between retailer appointed Metering Coordinator and other parties



Business models

Metering Coordinator may either set up, contract with, or vertically integrate with a:

- Retailer
- ESCO
- DNSP
- MP/MDP

Contractual arrangements to provide metering services may or may not include exclusive supplier arrangements.

Procurement of metering services

Meters and supporting functionality may either be bought from a metering manufacturer or leased from an independent provider.

- Black arrows indicate parties Metering Coordinator may contract with to provides services.
- Red arrows illustrate that MDP and MP may be the actual 'doers' when it comes to providing metering services.
- Dashed arrows illustrate that metering services are ultimately an input into delivered services to consumers.

Issues to consider

- Some concerns were raised about insufficient competition or threat of competition emerging and that a Metering Coordinator may have market power and charge higher than efficient prices for its services.
- This could lead to a number of concerns in the market:
    1. A Metering Coordinator could charge higher than efficient prices for services DNSPs need to manage the network, this could then flow through to higher network charges for consumers.
    2. If a retailer owns or has a close affiliation with a Metering Coordinator, the Metering Coordinator may frustrate access to second tier retailers who are seeking to acquire a customer, or charge higher than efficient prices for use of its meters or metering services.
        - This could create barriers to switching and lessen competition in retail market.
    3. If a retailer owns or has a close affiliation with a Metering Coordinator, the Metering Coordinator may frustrate access or charge higher than efficient prices to Energy Services Companies (ESCOs).
        - This could mean consumers may not have choices regarding value added energy management services or are charged higher than efficient prices for doing so.
- There are a number of factors that would mitigate these issues outlined on the next slide.

What we need to believe to mitigate issues and what do we know about current market environment?

What would mitigate consequences?	Current state of play
New entry of a critical mass of Metering Coordinators, Metering Providers and Metering Data Providers will discipline pricing behaviour of any single party, provided they do not have exclusivity arrangements with particular retailers.	• A range of independent businesses are starting to engage and negotiate in the market.
Evidence of retailer-affiliated Metering Coordinators behaving as independent entities, and bargaining power of second-tier retailers.	• In NZ Metering Equipment Providers are typically owned by or closely affiliated with retailers or DNSPs, but provide metering services to other retailers and DNSPs. • Prevalence of reciprocal arrangements for meter use in New Zealand suggests Retailer Metering Coordinators have incentives to negotiate with other retailers to avoid 'tit for tat' responses and risk of meter stranding. The retail and metering market considered competitive in New Zealand. • Expectation that retailer own Metering Coordinators likely to be independent (ie subsidiary).

What we need to believe to mitigate issues and what do we know about current market environment? (2)

What would mitigate consequences?	Current state of play
Innovative leasing models for procurement of metering services will lower cost of alternative Metering Coordinators, placing a lower ceiling on negotiated prices.	• Parties indicating that leasing arrangements could be applied in Australia. • Metering businesses likely to supply metering services to other retailers, DNSPs and ESCO's based on monthly or annual charge.
Competitive retail market. For example, if consumers value ESCO services then retailers should have incentives to partner with ESCOs, or provide themselves, as otherwise risk losing customers.	• Retail competition is considered effective in Victoria, SA and NSW, and QLD.
DNSPs are expected to have significant countervailing bargaining power, as they will be the only buyer of services and for some services will not require access to all connection points within network area. Network services will provide Metering Coordinator opportunity for incremental revenue that contributes to funding fixed costs of meters and infrastructure.	• Potential for arrangements that can be formed between parties (eg what services are beneficial to the DNSP and what services from a DNSP perspective are useful to the Metering Coordinator).

Is there a need for regulation (1)

- Early indicators from the Australian market and New Zealand experience, indicate it is likely that workably competitive market will develop in metering and value added services.
- We recognise concern about potential risks for inefficient outcomes in the early stages of the market, before effective competition has had a chance to emerge.
- A key question is whether risks are best addressed by:
  - *Allowing the market to operate for a period, and review the state of competition in a few years time.*
  - *implementing some regulation now.* Implementation of any regulation should seek to meet the following criteria:
    - Provide incentives for parties to negotiate price outcomes, rather than resort to regulatory processes.
    - Not undermine incentives for investment in metering services.
    - Seek to replicate outcomes in a 'workably competitive market'.
- We are working through the options and considering implications of both and potential forms of light handed regulation.

Is there a need for regulation (2)

Policy option 1 (monitor and review)	Policy option 2 (light regulation now)
This option lets market operate without intervention but sets a review date with threat of regulation if competition found not to be effective. Supplementary option – Publication of Metering Coordinator prices.	This option introduces a safety net for parties if commercial negotiation fails. It could Include some principles in the NER to guide negotiation, supported with a dispute resolution process. It could also include a sunset clause.
Benefits	Benefits
• Allows the process of competition to work for a period without potential distortionary effects of regulation. • Relies on credible threat of more intrusive regulation to encourage more efficient behaviour. • Avoids administrative costs.	• Relies on commercial negotiation to determine prices. • If prices deemed unreasonable provides scope for independent arbitration. • May promote greater certainty and confidence in immature market.
Costs/risks	Costs/risks
• If competition fails to emerge-participants/consumers may lose confidence in market.	• Poorly specified framework may lead to protracted negotiation processes and de-facto price regulation.
• Threat of imposing regulation later may create perception for parties that the profits of investments once made could be expropriated.	• Poorly specified framework may reduce incentives for businesses to invest in metering services (if their ability to make a profit from doing so is constrained).

Policy option 2 – safety net (principles)

- Principles that could be contemplated under option 2:
  - The Metering Coordinator would be required to make an offer to provide services enabled by the meter at the relevant site.
  - Any person that is entitled to access to those services could require the Metering Coordinator to make such an offer.
  - That offer must be made, for example, on fair and reasonable terms.
  - If the Metering Coordinator and the party seeking access cannot agree on terms, the party seeking access could refer the matter to dispute resolution.
  - The form of dispute resolution could include arbitration on the terms and conditions for access to the services, including price.
  - The Metering Coordinator could only be required to provide access to services that can be provided by the current functionality in the existing meter and could not be compelled to upgrade the meter.
- Regulation could be subject to a sunset clause: eg automatically expires after 5 years. This would make it clear that it is only a transitional arrangement until competition develops.

Potential application - scenarios to consider

- Different scenarios should be considered as to when the Metering Coordinator at a site could be compelled to make an offer. For example:
  - Retailer A appoints MC A to be the MC at a customer's site. Can a DNSP or ESCO request MC A to make an offer on fair and reasonable terms to provide services enabled by the meter?
  - Retailer A appoints MC A to be the MC at a customer's site. The customer churns to retailer B. Retailer B requests MC A to continue to be the MC. Should MC A be required to make an offer on fair and reasonable terms?

Attachments

Timeline

Item	Date
Workshop 1 – Metering Coordinator role	26 June 2014
Workshop 2 – Network regulatory arrangements	1 August 2014
Workshop 3 – Relationships between parties	28 August 2014
Workshop 4 – Overview of proposed arrangements	24 September 2014 Sydney
Workshop 5 – Transitional arrangements for Victoria, governance of the minimum functionality specification/ jurisdictional arrangements and requirements for implementation.	9 October 2014 Melbourne
Publication of draft determination and draft rule	December 2014
Public forum on draft determination and draft rule	January 2015
Close of submissions to draft	February 2015
Publication of final rule and final determination	April 2015

Core elements of the rule change

Metering Coordinator (MC) role

- Independent MC
- Open access advice – gate keeper role and functions
- Accreditation and enforcement requirements
- Loss of accreditation or failure of an MC
- Data access provisions for billing and settlement
- Provision to allow a MC exclusivity for type 6/7 meters

Relationships between parties

- Retailer-consumer relationship
- Retailer-MC relationship (incl. contractual arrangements/need for light handed regulation)
- Consumer-MC relationship (incl. consumer protections for small customers)

Network regulatory arrangements

- Unbundling metering charges from distribution use of system charges
- Exit fees for type 5/6 meters
- Smart meters as part of a regulated DSP business case
- Ring fencing arrangements
- Maintaining existing load management capability

Minimum functionality specification

- Upgrade to existing specification – AEMO work
- Governance
- Jurisdictional issues – new/replacement and reversion policies

Transitional arrangements

- Arrangements for Victoria
- Distribution business/retailer arrangements for existing meters
- Procedures and guidelines – MSATS, B2B and IEC arrangements

Implementation arrangements

- Requirements for implementation