



EnergyAustralia

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Australian Energy Market Commission
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Dear Sir/Madam

Re: AEMC Rule Change Consultation - ERC0169

National Electricity Amendment (Expanding Competition in Metering and Related Services) Rule 2014

National Energy Retail Amendment (Expanding Competition in Metering and Related Services) Rule 2014

1. Introduction

EnergyAustralia (EA) appreciates the opportunity to respond to the Australian Energy Market Commission's (AEMC) rule change consultation covering the provision of metering and related services in the National Electricity Market (NEM).

This rule change has been submitted by the Standing Council on Energy Resources (now the COAG Energy Council) as a result of recommendations made by the AEMC in the Power of Choice Review in November 2012.

We are one of Australia's largest energy companies, providing electricity and gas to over 2.7 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas and wind assets with control of over 5,600MW of generation in the National Electricity Market.

EA is generally supportive of the view that various rule and structure changes are necessary to adequately accommodate competition in metering and related services going forward. However we also believe that the current market structure is largely conducive to competitive efficient outcomes and that change should only occur where significant market failure is evident. It is still not clear that many new metering and related services will be demanded by consumers and therefore the market should minimise excessive changes that would create unnecessary costs to market

participants and in turn consumers until they are required. This is apparent by the relative slow uptake of smart metering services and products in the Victorian market.

This response will be structured around the following four key rule change issues discussed in the consultation paper:

1. Metering Coordinator/Responsible Person role
2. Minimum Functionality Specification
3. Network Regulatory Arrangements
4. Transitional Arrangements

2. Key Rule Change Issues

2.1. Metering Coordinator/Responsible Person Role

Under Chapter 7 of the current National Electricity Rules the Responsible Person (RP) is responsible for the provision, installation and maintenance of a metering installation together with the collection processing and delivery of metering data. The Responsible Person may do this directly or via a metering provider and a metering data provider. The RP must also ensure that the metering installation is maintained in accordance with NER procedures and standards. The RP is usually a retailer or the local distributor largely determined by the meter type concerned.

Under this rule change the COAG Energy Council (CEC) proposes that the "Responsible Person" role would be renamed the "Metering Co-ordinator" with similar responsibilities. The key differences being that the Metering Coordinator could be any registered and accredited party as well as be responsible for any new metering or related functions required by the party engaging the metering co-ordinator.

EA supports metering contestability for all meter types and is relatively comfortable with the proposed name change of the RP to the Metering Coordinator (MC). Allowing more parties to take on the role of MC should increase innovation and efficiencies that will ultimately benefit customers.

2.1.1. Appointment of the Metering Co-ordinator

CEC proposes under this rule change that the retailer would have the default responsibility for engaging a MC on a consumer's behalf should the customer not appoint a MC. A retailer may also take on the role of a MC.

EA is not convinced that all customer segments will benefit from the right to appoint their own MC. Moreover we are concerned that this right for small customers is not really required at this time. Large customers are readily capable of negotiating commercial arrangements for meter and meter data provision services whereas this is not the case for small customers. It is doubtful that small customers would exercise this choice and if so a suitable regulatory/contractual protection framework would

need to be developed to support this option. In most cases the retailer packages its small customer offering including energy, delivery of energy, metering and other related services. The retailer is therefore best placed to ensure that the appointed MC has installed the appropriate metering equipment at the connection point.

EA believes that MCs and metering providers have the correct incentives to ensure the most appropriate metering is installed onto small customer sites with minimal meter churn and this will result in competitive commercial arrangements being established between MCs when small customers change retailers.

Allowing the customer to appoint the MC would likely increase the regulatory burden on market participants for minimal benefit and more work needs to be done to fully understand the implications before this is progressed.

2.1.2. Retailer and Metering Coordinator Relationship

It is proposed that the NER would be amended to require the MC to:

- inform retailers of the meter functions required in each jurisdiction and when changes in meter will result in material changes to consumer services, costs or contract terms;
- advise the retailer of a change in MC initiated by the customer; and
- not unreasonably block requests by the retailer to change features of a metering installation provided they do not affect existing functions offered by other parties.

EA believes that most of these obligations would be part of the commercial agreement established between retailers and MCs and therefore sees no need for this to be regulated. Care must be taken not to regulate all facets of the arrangements in order to provide certainty and transparency as this will stifle innovation and competitive outcomes.

The MC will also have the right to assign its responsibility to another MC subject to the consumer's retail contract (where the retailer has engaged the MC). EA believes that this should be expressed as a sub contract arrangement in order to preserve all of the responsibilities between the parties.

EA supports, the intention by CEC, that the relationship between the retailer and the MC should be a commercial arrangement however we are not convinced that a standard contract is required as proposed by the AEMC. This should be further investigated during the forthcoming AEMC workshops covering these issues.

2.2. Minimum Functionality Specification

The concept of a smart meter minimum functionality specification has been contemplated for some time by industry. Initially this was driven by the mandatory roll out, by distributors, of smart meters into Victoria. Retailers, distributors,

government and consumer representatives participated in various Victorian working groups in 2008 and saw this as the last opportunity for some time to maximise the minimum functionality of smart meters to be rolled out into Victoria. Consequently the process was extensive and complex with many developing functionalities contemplated and included. We are now over six years on and many of these smart meter functions have not been utilised. This process was extended under the National Smart Meter Program whereby SCER endorsed the Smart Meter Infrastructure (SMI) Minimum Functionality Specification (MFS) in December 2011. Once again this was developed initially for use by any jurisdiction contemplating a mandatory roll out of smart meters.

In essence these Minimum Smart Meter Functionality Specifications have been developed as Maximum Smart Meter Functionality Specifications for mandatory smart meter roll outs. Under a market led roll out the MCs and metering providers will install meters based on market demands and business case backed assumptions on the likely take up of emerging capabilities. These entities will bear the risk of stranded metering assets if they fail to include required functionalities. Therefore EA is of the view that the importance of setting a prescribed minimum functionality is minimal. Governments and regulators appear to be influenced by the threat of meter churn under a market led roll out when in reality this is simply market forces at work. The experience in New Zealand where contestable metering has existed for sometime is that minimal meter churn occurs.

EA is uncertain of the value of the proposal by CEC to set a smart meter minimum specification that is not binding unless prescribed by a jurisdiction. Therefore we are likely to see various jurisdictional prescribed minimum functional specifications across the NEM together with a variety of jurisdictional new and replacement meter policies. This is not an optimal arrangement for national businesses seeking to gain the economies of scale of large scale meter purchases that will allow them to roll out least cost smart meters across the NEM. EA believes the AEMC should revisit this issue understanding the commercial imperatives that will operate in this space.

2.3. Network Regulatory Arrangements

2.3.1. Unbundled metering costs

There is no question that the unbundling of metering charges, as proposed by CEC, from the regulated asset base of distribution businesses will introduce more transparency for the costs of metering services. This will allow customers to better compare the costs of smart metering and to evaluate their benefits. It will assist retailers in their quest to roll out smart meters under a market driven rollout EA supports the extension of unbundling (reclassifying from standard control services to alternative control services) implemented by the Australian Energy Regulator (AER) to the remaining jurisdictions of NSW, QLD and Tasmania.

The AER would be better placed to advise on any required changes to the NER that would make this process more certain under the network price determination processes.

2.3.2. Exit fees for accumulation and manually read meters

It is agreed that clearly defined and transparent exit fees for accumulation and manually read interval meters will encourage competition and investment in smart metering services. The present situation whereby compensation is negotiated for replacement of accumulation and manually read interval meters is sub optimal and has created a barrier to smart meter replacements. Retailers have in the past had minimal success in negotiating fair competitive outcomes with monopoly distribution companies.

Giving the AER the responsibility to set exit fees going forward and specifically for existing type 5 and 6 meters where the local distributor was the RP prior to the commencement of the rule change is also fully supported. Meter exit fees should be set at a reasonable value that is capped with a transparent reducing fee path so that the market has certainty when developing strategies for mass roll outs of smart meters. The AER should also be given the powers to re allocate metering costs into alternative network asset bases whereby an exit fee cap can be achieved with recovery better smeared across distribution use of system charges for example.

2.3.3. Provision for network business to provide smart meters as part of a regulated Demand Side Participation (DSP) business case

CEC states that its rule change request should not prevent a local distributor from implementing a demand side program whereby customers would receive incentives under a demand management program. While it is acknowledged that widespread participation in these programs could provide operational benefits for networks the facilitation of this in parallel with a market led roll out of smart meters by retailers requires more thought.

The two models discussed in the consultation paper are as follows:

- a) Distributors could provide advanced metering by entering into contracts with retailers or independent metering coordinators: or
- b) Distributors could provide advanced metering by contracting with their own ring fenced metering businesses.

Under option (b) the DSP benefits would need to be clearly evident and approved by the AER to avoid the widespread justification of distributor led roll outs of advanced metering. There is also a concern that some metering coordinators may not see value in installing a meter with suitable DSP capability. However the solution may include the application of a tender process supported by new AER regulatory provisions and oversight.

2.3.4. Ring fencing arrangements

As affiliated distribution network companies would be able to take on the role of MC under this rule change EA is pleased to see that the AER is in the process of establishing a national distribution ring fencing guideline. The current ring fencing arrangements for distribution companies appear inadequate for this new MC role and a more robust approach is required. This will allow new and existing parties to remain confident in a market and support future investment.

2.4. Transitional Arrangements

2.4.1. Arrangements for Victoria

The jurisdictional derogation in Victoria varied the application of the NER giving distribution network businesses exclusive responsibility for the provision of metering to small customers until 2013. This derogation has been subsequently extended until 31 December 2016 or until national arrangements for competition in metering and related services are implemented.

The CEC proposes under this rule change:

- a) that the Distribution network businesses continues to deploy meters in accordance with the Victorian mandate until this rule change commences;
- b) that the local distribution network business becomes the MC for the existing smart meters and that they continue (to the exclusion of others) in this role for a defined period; and
- c) At the expiry of the exclusivity period the regulated exit fee would apply should a retailer or consumer seek to replace its meter.

EA is comfortable with this approach but believes the exclusivity period should not be extended beyond the period of the derogation expiry date of 31 December 2016. The NER should explicitly define this outcome in order to achieve a smooth transparent transition back to a consistent regulatory approach for all metering in the NEM. This will support the National Energy Objective that will deliver scale benefits for industry with consequential benefits to consumers.

2.4.2. Distributor MC role for existing meters (other than Victoria)

The CEC proposes that local distribution business would become the MC for those meters for which it was previously RP and the retailer would engage the local Distribution business as the initial MC for these meters. The distributor should have a continuing obligation of MC for those meters that they were RP for prior to the rule change. EA supports this transitional approach that also implies that a new MC can be appointed at any time for these sites after the rule change. EA also agrees with the AEMC which recommends that the distributor should continue in the role as MC under its new ring fenced entity in order for competition to be more effective in this transitional period.

It is also agreed that the AER would regulate charges for metering services where the MC was previously the RP and in situations where competition did not exist for metering services.

2.4.3. Retailer MC role for existing meters

During transition it is agreed that retailers would become the initial MC for existing meters where they are the RP.

3. Summary

EA is reasonably supportive of the framework presented under this rule change and we look forward to participating in the various workshops proposed over the next few months whereby the detail of these key issues can be further developed.

As a national retailer we are disappointed at the growing trend of the AEMC to recommend areas for jurisdictional derogations under this framework. Many economic efficiencies will be lost if we continue to explore and allow jurisdictional differences across the NEM especially when they are not absolutely necessary. Consumers will benefit substantially if we can develop a consistent approach for metering across the NEM.

Should you require further information regarding this submission please call me on 03 8628 1437.

Yours sincerely

[Signed]

Randall Brown
Regulatory Manager