

22 October 2024

Ms Anna Collyer
Chair
Australian Energy Market Commission

By online submission

Dear Ms Collyer

Rule change requests – non-controversial changes to Chapter 7

The Australian Energy Market Operator (AEMO) requests that the Australian Energy Market Commission (AEMC) consider making two rule changes under section 91 of the National Electricity Law.

The rule change requests detail two proposals to amend Chapter 7 of the National Electricity Rules (NER) to improve efficiency, provide cost savings and facilitate a smoother and faster rollout of smart meters.

The first rule change request details AEMO's proposal to replace the existing Clauses 7.8.4(a), (b), and (c), which requires Metering Coordinators (MCs) to seek an exemption from AEMO when they are unable to establish a telecommunications connection to a metering installation, with provisions that introduce record-keeping obligations for MCs. In doing so, the proposed rule change request ensures that MCs retain accountability through detailed record-keeping whilst removing the unnecessary complexity and administrative burden that is currently associated with the exemption process.

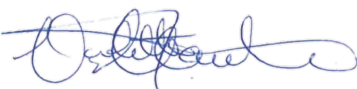
AEMO believes this rule change is necessary as technology changes have made the current rule redundant. AEMO considers that this change can also assist the acceleration of smart metering deployment by removing a process that might otherwise lead to failed attempts to install smart meters.

The second rule change request seeks to remove the consultation requirement specified in NER 7.16.3(b) for the Metrology Procedures. This clause requires the Metrology Procedure consultation process to include a minimum period of three-months between the publication of the final determination and procedure commencement. AEMO contends that this creates unnecessary delays, reduces flexibility and responsiveness to changes in the electricity market. In making this request, AEMO aims to align the Metrology Procedure consultation process with the requirements for other AEMO procedures authorised under NER Chapter 7.

AEMO considers these changes to be non-controversial and has received support from market participants who would be affected by the requested changes. Accordingly, AEMO requests that the AEMC consider applying an accelerated rule change process to these rule change requests.

Any queries concerning this letter should be directed to Lee Brown, Specialist Market Design and Development, at lee.brown@aemo.com.au.

Yours sincerely,



Violette Mouchaileh
Executive General Manager Reform Delivery

Attachments:

Rule change proposal: AEMO exemption requirements – no telecommunication networks

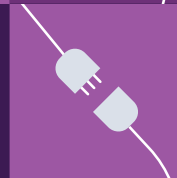
Rule change proposal: Metrology Procedures consultation process requirements

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Australian Energy Market Operator Ltd ABN 94 072 010 327





Electricity Rule Change Proposal

AEMO exemption requirements – no telecommunication networks

October 2024

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1. Summary

The Australian Energy Market Operator (AEMO) has prepared this rule change request for the Australian Energy Market Commission (AEMC) to amend the National Electricity Rules (NER) by replacing the existing clauses 7.8.4(a), (b), and (c) with provisions that introduce record-keeping obligations for *Metering Coordinators* (MCs) in cases where a connection to a *telecommunications network* cannot be established when the *metering installation* is installed. The proposal aims to streamline the process, eliminating the need for a formal exemption process, while ensuring accountability and transparency is maintained.

The current rule requires MCs to seek an exemption from AEMO when they are unable to establish a telecommunications connection to a *metering installation*, leading to administrative inefficiency and outdated procedures. The proposed solution is to replace this requirement with a record keeping obligation, similar to the current requirements for installation of a type 4A metering installation as a result of a customer refusal to establish remote communications. This ensures that MCs retain accountability through detailed record-keeping while removing unnecessary regulatory burdens.

Scope and Urgency:

Given the upcoming acceleration of the smart metering rollout, and the widespread support for the proposal provided to AEMO in consultation with affected Market Participants, we submit that the AEMC consider applying an accelerated rule change process to this rule change request, to prevent potential disruptions and inefficiencies.

2. Relevant background

2.1. Current framework

NER 7.8.3 provides the conditions under which a *small customer metering installation* must be provided by the MC at a NMI. NER 7.8.4 provides the conditions under which a type 4A metering installation is permitted to be installed as an alternative.

Under NER 7.8.4(a), an MC may seek an exemption from AEMO if they are unable to establish the required communications with a *metering installation at a connection point*. Obtaining an exemption allows for the installation of a type 4A *metering installation* (a modern smart *metering installation* without remote access by way of a telecommunications link).

The restrictions relating to type 4A *metering installations* safeguard against an MC determining to not install remote communications at a *small customer metering installation* by choice or convenience, rather than there being a material barrier.

In order to obtain an exemption, an MC must demonstrate to AEMO's reasonable satisfaction that there is no existing *telecommunications network* which enables remote access to the *metering installation at that connection point*. An exemption can apply for up to 5 years.

The exemption process established by AEMO to facilitate MC exemption applications involves the following steps:

1. **Application Submission:** The MC must submit an application to AEMO detailing the reasons why they cannot establish remote communication with the *metering installation*. This may include technical, geographical, environmental or logistical challenges which demonstrate that there is no existing *telecommunications network*.
2. **Assessment by AEMO:** AEMO reviews the application to assess whether the reasons provided justify the exemption. AEMO may consider factors such as the availability of communication infrastructure, the remoteness of the location, and the feasibility of alternative solutions.
3. **Conditional Approval:** If AEMO grants the exemption, it may impose conditions on the MC, such as regular reporting or efforts to rectify the communication issue within a specified period.
4. **Monitoring and Compliance:** AEMO monitors the situation to ensure compliance with any conditions attached to the exemption and may review or revoke the exemption if circumstances change.

NER 7.8.4(d) through to (i) provide for circumstances where communications are not installed because of a refusal by the customer. This does not depend on an exemption process, instead requiring the MC to create and maintain records, for at least two years, in relation to the refusal and share these records with the retailer.

2.2. Accelerated deployment pending

The AEMC is currently consulting on a rule change¹ to accelerate the deployment of *small customer metering installations*, as contemplated in NER 7.8.3.

The draft rule seeks to increase the pace at which smart meters are installed, targeting a goal where all electricity customers have smart meters by 2030. Commencement of the acceleration program is expected within the latter half of the 2025 calendar year.

¹ <https://www.aemc.gov.au/rule-changes/accelerating-smart-meter-deployment>

3. Statement of issue

3.1. Current Rules

No existing telecommunications network

NER 7.8.4(a), (b) and (c) provides the conditions under which a type 4A *metering installation* is permitted to be installed as a result of there being no existing *telecommunications network* to facilitate remote access.

NER 7.8.4(a), (b) and (c) states:

- (a) AEMO may exempt a *Metering Coordinator* from complying with clause 7.8.3(a) in respect of a *connection point* for a period of up to 5 years if the *Metering Coordinator* was able to demonstrate to AEMO's reasonable satisfaction that there is no existing *telecommunications network* which enables remote access to the *metering installation* at that *connection point*.
- (b) Where the *Metering Coordinator* is exempt under paragraph (a) from complying with clause 7.8.3(a) in respect of a *connection point* including, for the avoidance of doubt, a *metering installation* at a *new connection*, is a type 4A *metering installation* that has the capability, if remote access is activated, of providing the services in table S7.5.1.1.
- (c) Subject to the reapplication of paragraph (a), on and from the date that an exemption, under paragraph (a) ceases to apply in respect of a *connection point*, the *Metering Coordinator* must ensure that the *metering installation* meets the *minimum services specification*.

Further, Chapter 10 of the NER defines *telecommunications network* as follows:

A telecommunications network that provides access for public use or an alternate telecommunications network that has been approved by AEMO for the *remote acquisition of energy data*.

3.2. Issues with the current Rule

Observing the growth in deployment of smart metering and the actions for MCs since the commencement of competition in metering services in December 2018, AEMO considers that the need for an ongoing safeguard, by way of the exemption process detailed above, is no longer relevant.

While the exemption process under NER 7.8.4(a) was established to address challenges in communication with *metering installations*, several factors suggest that the concept of obtaining an exemption has become outdated and unnecessary:

Inherent incentives for MCs

MCs and the retailers who appoint them have a natural and strong incentive to establish communications at the time of installing a smart meter. Effective communication is essential for the accurate collection, transmission, and processing of metering data, which is critical for market settlement and billing. Given the financial and operational importance of maintaining reliable communications, MCs are already motivated to ensure that the necessary infrastructure is in place. Costs related to manual data collection for *metering installations* without communications will not be

trivial and these will need to be accounted for in the contractual arrangements between MCs and retailers.

Advancements in communication technologies

The availability of modern communication technologies, particularly satellite communications such as the Starlink system, has dramatically reduced the instances where communication networks are unavailable. Starlink and similar systems provide global coverage, including in remote and rural areas, ensuring that reliable communication can be established almost anywhere. This technological advancement renders the need for exemptions due to lack of a communication network, as that term is used in the NER, obsolete.

As a result, AEMO is no longer in a position to grant an exemption within the boundaries that are established in the NER, i.e. AEMO cannot be reasonably satisfied that there is no existing *telecommunications network* which enables remote access to the *metering installation* at that *connection point*.

However, the NER does not consider the costs or the practicalities of establishing such a communications connection. Whilst the MC might be naturally incentivised to establish communications, the costs of connecting to a communications network such as Starlink might be prohibitive. Similarly, environmental conditions might inhibit connection to a communications network such that the costs of installing cabling and antenna are materially prohibitive. The NER provides AEMO with the authority to assess whether there is or is not a telecommunications network, not whether the costs of connecting to that network outweigh the costs and benefits for the retailer and MC of doing so. AEMO considers that the MC and their appointing retailer are best placed to make such a determination, weighing the costs and practicalities against the natural incentives previously described.

Administrative burden and market efficiency

With the widespread availability of robust communication networks and the natural incentives for MCs to establish communication, the exemption process under NER 7.8.4(a) adds unnecessary complexity and administrative burden. Rather than seeking exemptions, MCs should focus on leveraging the available technologies to meet their communication obligations without delay, in particular in support of the pending acceleration in rollout of smart metering.

Removing the exemption process would streamline the regulatory framework and the overall efficiency of the NEM.

4. How the Proposal will address the issues

4.1. How the proposal will address the issues

The pending acceleration of smart metering deployment is likely to cause a material increase in the number of exemption applications to AEMO, that AEMO are not able to approve. This has the potential to lead to MCs installing type 4A *metering installations* outside of the circumstances allowed for in the NER, or registering the *connection point* as one where the installation of a type 4 *metering installation* was unable to be completed.

AEMO considers that there are three clear options that could be pursued to address the issues outlined in the previous section regarding the assessment of obtaining remote access to a smart meter by way of a *telecommunications network*:

Option 1: Remove the rule clauses (7.8.4(a), (b) and (c)) in their entirety

By removing these clauses, the process of seeking exemptions is eliminated, reducing the administrative burden on MCs and the impracticality of assessing applications on AEMO. This approach acknowledges advancements in communication technologies, such as satellite communications, making it feasible to establish connections in virtually all locations, with the costs vs benefit assessment for establishing communications being the responsibility of the MC.

However, evidence of the rationale for not establishing a connection to a *telecommunications network* would reside solely with the installing MC (other than where there is a *small customer* refusal as provided for in 7.8.4(d)). Further, there would be no compulsion to install communications once the barriers that prevented them were resolved, which is a theme currently present for all causes which lead to a type 4A *metering installation* being installed.

Option 2: Replace the rule clauses with record keeping obligations

Moving from a formal exemption process to a record-keeping obligation would remove the impracticality of AEMO assessing applications and would streamline the administrative processes for MCs.

MCs would still be held accountable for their decisions through documentation, which could be reviewed by the AER or AEMO if necessary, similar to the evidence of a small customer refusal within NER 7.8.4 (d) through to (i). This would provide assurance that MCs would make informed and justifiable decisions regarding the establishment of communications for metering installations. This approach would also allow for flexibility, as the MCs could address unique challenges on a case-by-case basis while ensuring there is a documented rationale for any deviations from standard processes. At a practical level, the assessment criteria applied by the MC is unlikely to require amendments, however their documentation will support record keeping obligations rather than exemption applications.

Whilst record keeping provides a degree of accountability, it would be reliant on an assurance process to prevent it leading to a lapse in compliance, noting that the information on why communications were not established is important in identifying when and how those conditions might be mitigated and communications facilitated. Requiring the MC to notify the retailer and

providing AEMO with access to MC records, can provide conformance assurance levels equal to that of the current exemption process.

Option 3: Amend the rule to accommodate a cost-benefits exemption assessment

This option maintains a formal exemption process, requiring the assessment of both technical feasible and economic considerations. If operated robustly, this approach could ensure that exemptions are only granted when the cost of establishing communications significantly outweighs the benefits.

However, introducing a cost-benefit assessment adds a layer of complexity to the process, which is likely to increase time and resources required for both AEMO and MCs. The cost-benefit analysis could risk introducing subjectivity into the decision-making process, leading to potential disputes or inconsistencies in how exemptions are granted. This option also only partially addresses the core issues in the current rule, which AEMO argue are increasingly unnecessary due to technological advancements and the natural incentives for MCs.

Whilst removing the clauses entirely (Option 1) would streamline the process, the lack of a formal requirement for record keeping on the rationale for not establishing a communications network appears sub-optimal. It does not transparently or robustly support the broader theme in the NER for the replacement of a type 4A with a type 4 *small customer metering installation* once the reasons preventing a communications network connection are resolved or are practically resolvable.

Option 3 appears overly complex and unnecessarily burdensome, and AEMO does not consider that it is best placed to assess individual connection point costs and benefits of establishing communications, in particular when the ongoing costs of type 4A metering data collection and service provision will be the responsibility of the *financially responsible Market Participant* (FRMP).

Replacing the rule with record-keeping obligations (Option 2) balances efficiency and flexibility with accountability. This option also enables assurance processes to confirm compliance, whether performed by the AER, AEMO, or another authorised party, and allows for parties to confirm when situations have changed in order that communications can be established in the future. This process could be made more robust still, by the application of civil penalty provisions, consistent with those elsewhere in section 7.8.4 regarding *small customer* refusals.

4.2. Stakeholder engagement

AEMO has engaged with Metering Coordinators and Metering Providers that have a direct interest in the telecommunications network exemption process, through one-on-one discussions and communications, receiving across-the-board support for the proposed change.

5. Proposed Rule

5.1. Description of the proposed Rule

The proposed rule seeks to replace the current NER 7.8.4(a), (b) and (c) with requirements on MCs to:

- record the reasons for not being able to establish a connection to a communications network and to install a type 4A metering installation;
- retain those records, and to share them with the FRMP at the *connection point*;
- make those records available to AEMO on request; and,
- establish remote communications as soon as practicable.

The proposed drafting is included in section 8.

5.2. AEMO Procedures


AEMO procedures or guidelines will require amendment to detail the process by which AEMO can obtain access to records of NMIs where communications have not been established by the MCs. In addition, two guideline documents will need alteration or deletion:

- Exemption guideline – small customer metering installation²
- Metering Installation Exemption Guideline³

AEMO would liaise with interested parties in relation to these changes, but notes that neither guideline is required to be subject to full consultation in accordance with the NER consultation processes.

5.3. Transitional matters

This proposal removes the need for AEMO to perform activities, and as AEMO contends that the current rule can no longer be functionally applied, it is appropriate for the proposed change to be made effective as soon as practicable.

MCs are already collating information on the installation of type 4A *metering installations* as a result of no *telecommunications network* in order to submit exemption applications, so the proposed change requests only that this information is stored and a copy provided to the FRMP at the *connection point*, rather than AEMO as is currently the case. AEMO does not consider that this is a material change for any participant and that it does not warrant a transitional process – i.e. the proposed change should be given effect as soon as is practicable. 

² https://aemo.com.au/-/media/files/electricity/nem/retail_and_metering/market_settlement_and_transfer_solutions/2023/exemption-guideline--small-customers-v14-clean.pdf?la=en

³ https://aemo.com.au/-/media/files/electricity/nem/retail_and_metering/market_settlement_and_transfer_solutions/2024/metering-installation-exemption-guideline-v11-clean.pdf?la=en

6. How the Proposed Rule Contributes to the national electricity objective (NEO)

Before the AEMC can make a change to the NER it must apply the rule making test set out in the NEL, which requires it to assess whether the proposed rule will or is likely to contribute to the National Electricity Objective (NEO). Section 7 of the NEL states the NEO is:

... to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to –

- (a) price, quality, reliability and security of supply of electricity; and*
- (b) the reliability, safety and security of the national electricity system.*

The current requirements for demonstrating the availability of *telecommunications networks* is inherently inefficient as it has been superseded by technological advancement.

However, it is reasonable for there to be a process by which the MC can avoid the establishment of a link to a communications system where they have determined it is either impractical or inefficient. Without a legitimate mechanism for the MC to install a type 4A *metering installation* in these circumstances, it is likely that the installation of a smart meter will not proceed, lest the MC be found in breach of NER 7.8.3. This could lead to impacts on the delivery of customer service outcomes where a smart metering installation is a requirement, and the accelerated smart meter rollout as proposed in the AEMC current draft rule.

AEMO considers that addressing these concerns in the manner proposed would thus contribute to the NEO by:

- **Improving efficiency of market operations** – replacing the exemption process with record-keeping obligations would streamline operations for MCs by reducing time and resources spent on navigating the exemption process and would also reduce administrative effort on the part of AEMO. Moving to a record-keeping model allows resources to be focused on other activities that directly enhance service delivery and consumer outcomes.
- **Remove barriers** to the installation of smart metering – better enabling the proposed accelerated rollout of smart metering and the related market benefits.

7. Expected benefits and costs of the proposed Rule

AEMO considers that the proposed rule will deliver efficiency gains without diminishing accountability, and with minimal implementation costs and manageable impacts on stakeholders.

The expected benefits of the proposal are as follows:

1. Efficiency Gains:

- The elimination of the exemption process will reduce administrative overhead for both MCs and AEMO, allowing for more efficient use of resources. MCs will no longer need to submit exemption applications, and AEMO will not need to review and assess these applications.
- The streamlined process will facilitate a smoother and faster rollout of smart meters, aligning with the AEMC's objectives for accelerated deployment.

2. Enhanced Accountability:

- The introduction of record-keeping obligations ensures that MCs remain accountable for their decisions regarding the establishment of communications capability. This documentation can be reviewed by the AER or other relevant authorities if necessary.
- The requirement for MCs to notify the FRMP adds an additional layer of transparency, ensuring that all parties are aware of the reasons impacting the communication status of metering installations.
- By mandating that type 4A *metering installations* must have the capability to enable remote access if activated, the proposed rule ensures that the metering infrastructure is prepared for future advancements and regulatory requirements.

3. Market and Consumer Benefits:

- The proposal supports the accelerated rollout of smart meters, which is expected to deliver long-term benefits to the market and consumers, including improved service delivery, more accurate billing, and better energy management.

The expected costs of the proposal are as follows:

1. Costs for MCs:

- MCs may incur additional costs related to the establishment and maintenance of record-keeping systems. However, these costs are expected to be minimal compared to the current burden of navigating the exemption process.
- MCs will need to ensure compliance with the new record-keeping and notification requirements. Failure to comply could result in penalties or other regulatory actions, though this is a standard expectation in regulatory environments.

2. Costs of Transition:

- The transition to the new rule may require some initial adjustments by MCs and FRMPs, including updates to internal processes and training. However, these costs are expected to be minimal and outweighed by the efficiencies in no longer needing to support the current model.

3. Impacts to small customers

- AEMO's assessment is that the proposal has no material impact on small customers. There is no provision in the Rules currently for passing on additional costs of manual reading under NER 7.8.4(a), (b) or (c) and AEMO has not proposed any be added. In contrast, NER 7.8.4(d)(2) provides for the FRMP to notify the small customer of costs associated with a customer refusal of communications.

The impacts to various stakeholders in the process are expected to be as follows:

- **Metering Coordinators:** Will benefit from reduced administrative burden but will need to adjust to new record-keeping and notification obligations.
- **Financially Responsible Market Participants:** Will gain increased visibility into the communication status of *metering installations*, enabling better decision-making.
- **AEMO:** Will be relieved of the administrative burden associated with exemption assessments, allowing for more focus on other regulatory activities.
- **Consumers:** Indirectly benefit from a more efficient rollout of smart meters, leading to better service outcomes and potentially lower costs.

8. Draft Rule

This draft is based on version 216 of the National Electricity Rules.

Delete the existing clauses 7.8.4(a), (b) and (c) and replace with the following:

7.8.4 Type 4A metering installation

No available connection to a telecommunications network

(a) Where the *Metering Coordinator* cannot obtain a satisfactory connection to a *telecommunications network* to enable remote access to the *metering installation* at a *connection point* at the time of installing the *metering installation*, the *Metering Coordinator* must:

- (1) record:
 - (i) the NMI;
 - (ii) the reasons for the absence of communication capability;
 - (iii) the steps taken to establish communication capability;
 - (iv) details of the communication technologies considered or attempted; and
 - (v) the date by which the *Metering Coordinator* will review the communication capability status of the *metering installation*;
- (2) notify the *financially responsible Market Participant*, within 5 *business days* of installing the *metering installation*, if communication capability is not established. This notification must include:
 - (i) a summary of the records maintained under clause 7.8.4(a)(1); and
 - (ii) an explanation of the circumstances leading to the installation of a *metering installation* without communication capability;
- (3) provide the records specified in clause 7.8.4(a)(1) to AEMO and the AER upon request.

(b) Where communication is not established at the time of installing the *metering installation*, the *Metering Coordinator* must install a type 4A *metering installation* that has the inherent capability, if remote access is activated, to provide the services specified in Table S7.5.1.1 and is configured to allow the activation of remote access without the need for replacement or significant modification of the *metering installation*.

(c) Where the *Metering Coordinator* obtains a satisfactory connection to a *telecommunications network* to enable remote access to the *metering installation* at a *connection point* and communication is able to be established, the *Metering Coordinator* must ensure that:

- (1) the metering installation at that connection point is transitioned to a type 4 metering installation that meets the *minimum services specification* as soon as practicable, and
- (2) the records maintained under clause 7.8.4(a) are updated to reflect the activation of communication and the transition to a type 4 *metering installation*.

Explanatory Notes:

- Rule 1.9 applies to records made under paragraph 7.8.4(a)(1).