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21 November 2008

Dr. John Tamblyn
Chairman
Australian Energy Market Commission (AEMC)
Level 5, 201 Elizabeth Street
SYDNEY NSW 2000

By email: submissions@aemc.gov.au

Dear Dr Tamblyn,

OverviewWe act for Elster Metering Pty Ltd (**Elster**).

Elster welcomes the opportunity to make a submission on the Draft National Electricity Amendment (Victorian Jurisdiction Derogation, Advanced Metering Infrastructure Roll Out) Rule (**draft Rule**) and related draft Rule determination and as discussed with Ms Anne Pearson of your office on 17 November, 2008, Elster is grateful that this submission will be considered despite the lapse of the nominated date for response.

Elster is part of Elster Group, the world's leading manufacturer and supplier of smart meters, communication solutions, and metering automation systems for the gas, electricity, and water industries. The group has over 8,500 staff, operations in 38 countries and serves over 115 markets around the world.

Elster supports the Victorian Advanced Metering Infrastructure (**AMI**) project and developments at the national level to roll out smart meters. Elster was one of a number¹ of technology suppliers to participate in trials of AMI technology run by the Victorian Department of Primary Industries (**DPI**) between 2006 and 2007 and its technology was found to most closely support the DPI functional requirements.²

Elster has no objection to the proposed derogation to retail contestability for the provision of smart meters, the issue at the heart of the proposed Rule change. Elster notes that this proposed derogation would be in line with the finding of the Ministerial Council of Energy (**MCE**) that "distributors are the most appropriate party to manage any obligation for an accelerated rollout."³

¹ Others included Intermoco; Ampy; TWACS; Hunt Technologies; GE; IskraEmeco; Echelon; and EDM.

² Elster's technology is technology number 3 identified at section 3.1.5 on page 12 of the Advanced Metering Infrastructure: Technology Trials Report, DPI, November 2007,
[http://www.dpi.vic.gov.au/dpi/dpinenergy.nsf/LinkView/8800A04258F64CB8CA2574E90013D9604CAC723B1D538D66CA25740C000D2004/\\$file/AMI%20Technology%20Trials%20Report.pdf](http://www.dpi.vic.gov.au/dpi/dpinenergy.nsf/LinkView/8800A04258F64CB8CA2574E90013D9604CAC723B1D538D66CA25740C000D2004/$file/AMI%20Technology%20Trials%20Report.pdf)

³ MCE, Smart Meter Decision Paper, 13 June 2008.

Elster's principal concern with the draft Rule and draft Rule determination is that it endorses the Victorian Government's adoption of the Type 5 metrology classification in the AMI rollout.

The functionality defined in Australia as Type 4 is typical of AMI smart meters designed and manufactured for other parts of the world, including North and South America, Europe and New Zealand. Indeed, a number of overseas companies, including Elster, utilised existing Type 4 products to meet the requirements initially established by the DPI in October 2007.

By contrast Type 5 functionality is uniquely Australian and requires a full design, manufacture, test and compliance process. Elster believes this to be an irrelevant technical restriction that will harm competition and innovation in the market for the manufacture and supply of smart meters as well as overall AMI solutions offerings.

Irrelevant technical restrictions

Elster recognises the need for baseline functionality and performance requirements to be prescribed for the AMI rollout. Elster welcomes the four key functionalities that the Victorian Government has identified for the initial rollout, namely the provision of interval metering; the remote collection of metering data; the remote de-energisation of supply; and the remote re-energisation of supply. Elster is also supportive of the other requirements set out by the DPI in October 2007 and the intent of the September 2008 amendments.⁴

Elster notes, however, that the Type 5 classification imposes different requirements relating to data storage, battery backup and serial port,⁵ that are irrelevant to meeting the prescribed functionality and performance levels for the AMI. These requirements are also irrelevant to meeting the minimum functionalities identified by the MCE for the national rollout.⁶

Impact on competition

The additional requirements of the Type 5 classification will exclude a number of existing and potential competing technology suppliers from participating in the rollout.

There are very few providers of Type 5 technologies in Australia. The adoption of Type 5 in the Victorian AMI project will, therefore, greatly limit distributors in their choice of a smart meter supplier with possible flow-on effects on the functionality, delivery and price of AMI solutions.

In addition, because the Type 5 classification is unique to Australia, its adoption will effectively prevent import competition for the supply of smart meters and potentially act

⁴ DPI, *Minimum AMI Functionality Specification* Victoria, September 2008.

⁵ Respectively ID numbers 4.9, 4.8, and 4.12, National Electricity Market Management Company (NEMMCO), Metrology Procedure Part A, Schedule 2, http://www.nemmco.com.au/met_sett_sra/640-0168.pdf.

⁶ MCE Decision paper, *A National Minimum Functionality for Smart Meters*, 13 December 2007.

as a disincentive to overseas-based companies to establish a presence in Australia to participate in the rollout.

The importance of stimulating competition and innovation on the supply side was highlighted by the Productivity Commission in its 2005 report "The Private Cost Effectiveness of Improving Energy Efficiency." The Productivity Commission concluded:

*"[P]rescribing the device ... has the potential to limit the adoption of alternative technologies and demand management strategies. The prescription should be limited to setting the minimum performance standards of the meter – such as standard operating protocols."*⁷

Elster agrees with the conclusion of the Productivity Commission and considers that the Type 5 classification goes beyond what is necessary to ensure minimum technical performance standards and interoperability.

As such, Elster maintains that the adoption of Type 5 in the AMI is an unjustified restriction on competition and may result in increased prices and reduced innovation among suppliers of smart meters. Such an outcome would be inconsistent with the National Electricity Objective (NEO)'s goal of promoting "efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity."⁸

Impact on the national framework

Elster is further concerned about the impact that the adoption of the Type 5 classification in the Victorian AMI rollout will have on the development of a nationally consistent framework for smart meters.

One possible outcome is that, in the interests of consistency, the Type 5 classification will be adopted as either the official or *de facto* standard for the national rollout, thereby heightening the negative impacts on competition for the supply of smart meters in Australia.

Another, equally unsatisfactory, possible outcome is that different standards will be applied across the different participating jurisdictions leading to a fragmented and inconsistent framework.

Conclusion

Elster recommends that the AEMC decline to adopt the draft Rule until such time as the AMI project is amended to provide for increased participation by technology providers. Elster notes that this could be achieved either by expanding the AMI project to adopt both Type 4 or Type 5 meters or by including a new classification for smart meters, to be developed in consultation with the MCE and other relevant bodies.

⁷ Productivity Commission Inquiry Report, No.36, 31 August 2005, p346.

⁸ National Electricity Law, section 7.

We would be pleased to discuss Elster's position with you further or to answer any questions you may have on the matters raised above.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Anthony Foley', with a stylized flourish extending to the right.

Anthony Foley
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cc: Ms Anne Pearson, Associate Senior
Director, AEMC
By email: anne.pearson@aemc.gov.au