



1 August 2013

Mr Stuart Slack
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

National Electricity Amendment (Victorian Jurisdictional Derogation, Advanced Metering Infrastructure) Rule 2013: Reference Number ERC0159

Dear Mr Slack,

AGL Energy (AGL) welcomes the opportunity to make a submission in response to the to the Australian Energy Market Commission (AEMC) on the National Electricity Amendment (Victorian Jurisdictional Derogation, Advanced Metering Infrastructure) Rule 2013 Consultation Paper (the Consultation Paper) seeking to extend the existing Victorian jurisdiction derogation under chapter 7 of the National Electricity Rules (NER) for up to three years.

As one of the largest energy retailers in Australia, AGL is well placed to comment on this review. AGL operates across the supply chain and has investments in energy retailing, energy services, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction. The diversity of this portfolio, together with the suite of energy services AGL offers nationally, allows it to develop an understanding of the issues posed under the proposed rule change.

The rule change request seeks to extend the existing jurisdictional derogation, which makes distribution businesses exclusively responsible for metering services for Victorian small electricity customers, for up to three years which is currently due to expire on 31 December 2013.

AGL's preferred option

AGL supports the provision of smart metering under a competitive metering and services framework which facilitates customer choice. The introduction of competition in metering services is one of the three key reforms proposed in the "AEMC Final Report: Power of choice review – giving consumers options in the way they use electricity" (AEMC Report) to achieve an efficient demand-supply balance in the National Electricity Market¹. AGL has supported these reforms.

AGL therefore does not support the extension of the existing Victorian jurisdictional derogation (the proposed option).

¹ AEMC Report p. ii

Risks in adopting this Rule

AGL is concerned that the rule change request fails to provide any indication or commitment by the Victorian government to transition Victoria to a contestable metering approach. The AMI ISC flagged to the government in February 2012 that the end of the derogation needed to be managed. Despite having plenty of time to act to resolve the issues identified, no action was taken. At the AMI ISC meeting in May of that year, the government raised the likely outcome as being an extension to parts of the derogation and no work was undertaken to manage the transition. As a result, AGL is concerned that further extensions will be requested when the new arrangements that arise from adopting the Proposed Option expire.

AGL is of the view that the exclusive provisions enabled by the proposed rule change mean that:

- metering and metering services are not provided at least cost which may restrict the range of products and services enabled through an open access and competitive approach
- transition to competitive metering in Victoria is further delayed; and
- this is not in the long term interest of consumers in Victoria as required under the National Electricity Objective (NEO).

Issues listed in the rule change request

The Victorian Government raises a number of issues that they believe may arise if the existing derogation in Victoria is not extended. AGL believes that these issues simply “muddy the waters” and do not represent real risks. The ERAA has extensively commented on these and therefore we will only address some of the key concerns.

Inefficient business to business (B2B) processes to cater for a competitive metering environment

AGL does not agree that B2B processes will be required to cater for a competitive metering environment in the event that the derogation expires. Meter Contestability exists in other states outside of Victoria such as NSW and SA and we believe that existing processes and procedures are adequate to support the transition for contestability in Victoria.

Inefficient meter churn and barriers to retail electricity market competition

In our view, it is highly unlikely for a functioning AMI meter to be replaced or churned as the existing fee arrangements, established under the AMI Order in Council (OIC), make the business case commercially unviable unless there is significant customer benefit. As stated in chapter 11 of the NER, services to which exit fees under clause 7, or restoration fees under clause 8, of the AMI OIC applied are to be classified as alternative control services and are to be regulated by the *AER* on the same basis as applied under the AMI Order in Council².

Meter contestability exists within the South Australian electricity market for small customers. The South Australian *Electricity Act 1996* gives small electricity customers the right to choose who carries out metering works. SA Power Networks’ alternative control metering service tariffs, which in accordance with clause 6.18.3(c) of the NER has been constituted as a separate tariff class with separate charging parameters that enables a retailer to churn a meter and unbundle metering charges.

AGL is of the view that unless a customer requests a new meter:

- is accepts any fees associated with the new meter (due to new offerings and emerging capabilities that are not available in the existing meter); and,
- agrees to pay the regulated exit fees (charged by distributors) that existing metering arrangements

² National Electricity Rules – Clause 11.17.6

then the existing AMI meter will not be changed.

Given that customers have already paid a significant amount for AMI meters, but are yet to experience the full benefits, it is likely that AMI meter churn will be rare in the short and medium term and stranding of meters is unlikely in any functioning market.

In addition AGL believes the issue raised of meter churn as customers change retailers is a misconception. AGL refers the AEMC to the ERAA Market driven rollout paper published on the ERAA website, which articulates the contestable metering framework under commercial arrangements between retailers and meter providers that support customer switching³.

Inefficient development of Victorian specific processes and systems to accommodate contestable metering services

As the Rule Change Request does not provide which Victorian specific processes and systems that need to be accommodated to allow for metering contestability to commence, AGL believes it is very difficult to provide substantive commentary on this matter. The ERAA has, however made some comments in their submission.

Lack of appropriate customer protections

AGL believes that the existing customer protections do not require amendment to allow for contestable metering within Victoria. Further, the arrangements that exist in the Marketing code and the Retail code sufficiently address the issues and concerns raised in the proposed rule change. According to these codes, prior to entering into a market contract, a retailer is required to:

- provide the customer details of all applicable prices, charges, tariffs and service levels that will apply to the customer, which would include any separate metering charges;⁴
- provide the customer a copy of the *contract* or other document evidencing the *contract* which sets out the *tariff* and all of the terms and conditions of the *contract* within 2 business days of entering into a contract, which would include any separate metering charges;⁵ and
- obtain explicit informed consent when entering into a market contract, where this can only occur once a retailer has clearly, fully and adequately disclosed in plain English all matters relevant to the consent of the *customer*, including each specific purpose and use of the consent.⁶

Therefore, AGL strongly believes that the extension of the derogation in Victoria is unnecessary and we are of the view that commercial arrangements between Distributors and Retailers in Victoria can be developed for the management of the existing AMI meters that have been rolled out to date. AGL is in the view that this is the most cost efficient way to transitioning Victoria to a contestable metering environment which promotes better solutions to customers.

Should you wish to discuss the details of this submission, please contact Stephanie Bashir on (03) 8633 6836.

Yours sincerely,



Alex Cruickshank

Manager Metering and Market Interactions

³ This is the New Zealand model, comprising a retailer-led rollout within the context of a very highly competitive market.

⁴ Marketing Code of Conduct clause 3.3

⁵ Marketing Code of Conduct clause 3.5

⁶ Energy Retail Code Definition of Explicit Informed Consent.