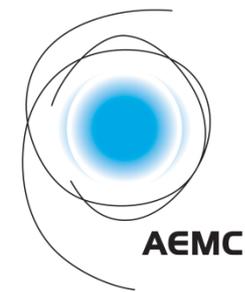


# Competition in metering and related services – rule change

Stakeholder workshop 2: Network regulatory arrangements



Friday 1 August 2014  
AUSTRALIAN ENERGY MARKET COMMISSION



# Introduction



# Core elements of the rule change

## Workshop 1

### Metering Coordinator (MC) role

Independent MC

Outcomes of 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

## Workshop 2

### 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

## Workshop 3

### 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)

## Workshop 4

### 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

Provision to allow a MC exclusivity for type 6/7 meters

Procedures and guidelines – MSATS, B2B and IEC arrangements

## Workshop 5

### Implementation arrangements

Implementation plan/requirements

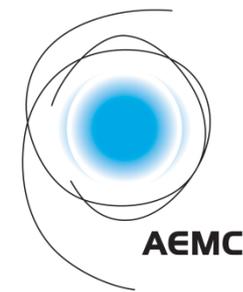
# Timeline

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 – Recap, arrangements for Victoria, governance of the minimum functionality specification, consumer-MC relationship	Late September 2014
Workshop 5 – Requirements for implementation	TBC
Publication of draft determination and draft rule	December 2014
Public forum on draft determination and draft rule	January 2014
Close of submissions to draft	February 2015
Publication of final rule and final determination	April 2015

# Workshop outline

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- Welcome and introductions
- Session 1: Exit fees for existing, regulated type 5 and 6 meters
- Session 2: Ring fencing arrangements
- Session 3: Smart meters as part of a DSP program / to manage network performance
- Session 4: Maintaining existing load control capability



# Session 1

## Exit fees for existing, regulated type 5 and 6 meters



# The COAG Energy Council's proposal

- Remove the current Chapter 7 NER provision and give the AER explicit responsibility to determine exit fees using the following principles:
  - The fee must be reasonable.
  - The fee should be based on the average depreciated value of the stock of existing type 5 or 6 meters, and operating costs.
  - The fee may include efficient and reasonable costs of transferring the consumer to another Metering Coordinator.
  - The fee for type 5 metering installations may differ from the fee for type 6 installations.
  - The distribution network business cannot recover an exit fee for a meter installed after the commencement of a jurisdictional new and replacement policy that is not compliant with that policy.
- The AER could consider whether a cap on the exit fee would be appropriate and, if so, the level of the cap.

# Stakeholder views from submissions

- Generally agree that distribution network businesses should be able to recover costs associated with a type 5 or 6 meter that is no longer required.
- Seek clarification on what the proposal means by the term 'exit fee', and what costs the fee seeks to recover:
  - Asset costs?
  - Administration costs?
  - IT/system costs?
- Greater transparency around how these costs are determined.
- Support the AER having a more explicit role in determining how these costs are recovered, and support the proposed principles.
- Questioned whether the term 'exit fee' is appropriate, and suggested 'meter transfer fee' or 'residual meter charge'.

# Questions and guiding principles

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## **Issues for discussion:**

1. What are the costs associated with a type 5 or 6 meter that is no longer required?
2. How should these costs be recovered?
3. Do we need to provide explicit principles in the Rules to guide the AER's consideration of the above?

## **Some principles to consider:**

- Reducing barriers to entry by supporting participation and confidence in the market.
- Supporting innovation and efficient investment.
- Minimising transaction costs.
- Consistency of the regulatory framework for distribution network businesses.

# Question 1: What are the costs associated with a type 5 or 6 meter that is no longer required?

Average depreciated value of the stock of existing type 5 or 6 meters

- Proposed for simplicity and administrative ease, as an alternative to attempting to determine the age of the actual meter at each premise.
- Appears to be the most reasonable and effective way of assessing the value of the meter to be removed, particularly if separately applied to type 5 and type 6 meters.

'Operating costs'

- Proposed as a means to allow a distribution network business to recover the costs incurred as a result of operating the meter.
- What constitutes 'operating costs' and what is reasonable to recover?

Efficient and reasonable costs of transferring the consumer to another Metering Coordinator

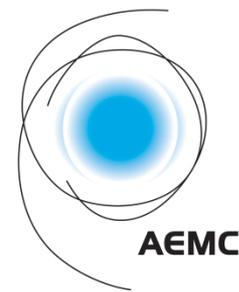
- Proposed to cover the administrative costs incurred for the consumer transfer.
- What are these costs likely to be?

Separation of the fee for type 5 meters from the fee for type 6 meters

- Distribution network businesses have tended to set a flat fee for type 5 and 6 meters, however the asset value and associated costs can be quite different.
- If the costs are calculated separately, the exit fee (if any) for a type 6 meter should be lower, thus providing a stronger signal for its replacement.

## Question 2: How should these costs be recovered?

	Options	Costs	Benefits
1	Through an exit fee that recovers the full costs from the consumer/business that seeks to upgrade/replace the meter.	<ul style="list-style-type: none"> <li>• A high upfront cost may deter investment in advanced meters</li> </ul>	<ul style="list-style-type: none"> <li>• Consumer/business choosing to replace/upgrade faces the full cost of their decision</li> </ul>
2	Costs are smeared across the consumer base through distribution use of system charges.	<ul style="list-style-type: none"> <li>• Consumers who don't replace/upgrade subsidise the costs of those who do</li> <li>• Parties do not have transparency of costs</li> </ul>	<ul style="list-style-type: none"> <li>• Consumer does not face a high upfront fee to replace/upgrade</li> </ul>
3	A combination of options 1 and 2. Some costs recovered through an exit fee and the remaining costs through distribution use of system charges.	<ul style="list-style-type: none"> <li>• Some level of cross subsidisation</li> </ul>	<ul style="list-style-type: none"> <li>• Consumer /business faces some cost of their decision to replace/upgrade</li> </ul>



# Session 2

## Ring fencing arrangements



# Background

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## **The COAG Energy Council proposal**

- Distribution network businesses would become the initial Metering Coordinator for meters for which it was previously the Responsible Person.
- Metering Coordinator services would be undertaken by the distribution network business's ring fenced business.
- Where a distribution network business seeks to participate in the Metering Coordinator market, it would also have to be ring fenced.

## **Stakeholder views from submissions**

- Generally supportive of distribution network businesses taking on the Metering Coordinator role as a transitional arrangement, and that it should take on this role as a ring fenced business.
- Some distribution network businesses noted that additional ring fencing requirements may not be necessary, and may not be required at all in areas where competition is unlikely to emerge.

# Why might ring fencing be required?

- In order to prevent/limit a distribution network business from:
  1. cross subsidising the costs of its Metering Coordinator services through its regulated business;
  2. having access to information not available to other parties providing Metering Coordinator services; and
  3. providing its Metering Coordinator business with access to services on more favourable terms than other parties.
- A range of ring fencing measures can be used to counter a distribution network business's incentive to engage in these behaviours.
- Onerous ring fencing requirements may increase costs to the distribution network business, which may affect the competitiveness of its offer to provide Metering Coordinator services.

# Question 1: How could the ring fencing arrangements be given effect?

- The NER allow the AER to develop ring fencing guidelines.
- The current ring fencing guidelines are specific to each jurisdiction. These guidelines only apply in a narrow set of circumstances and there are marked differences in the measures adopted by each jurisdiction.
- In recognition of this, the AER intends to develop a national ring fencing guideline.

## Issues for discussion

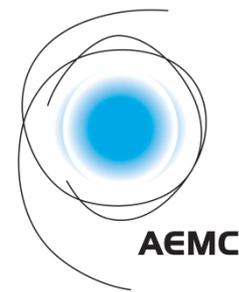
1. Require the AER, through the transitional rules, to establish a national ring fencing guideline by a specified date.
  - Is there a need to be prescriptive in the Rules about the ring fencing arrangements that should apply to Metering Coordinator services specifically?

## Question 2: When should the obligations under the new guideline commence?

- There will be a transitional period between the final rule determination and the date the new Rules come into force.
- We recognise that some distribution network businesses may not wish to compete in the Metering Coordinator market.
- We also acknowledge that a retailer may choose to appoint a different Metering Coordinator soon after the Rules commence.

### Issues for discussion

1. Require distribution network businesses to have established a ring fenced business on the day the Rules commence.
  - How many distribution network businesses already have a ring fenced business? How onerous might it be to comply with new obligations?
  - Are there circumstances where the ring fencing obligations should not apply?



# Session 3

## Smart meters as part of a DSP program / to manage network performance



# Background

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## **Power of Choice**

- Suggested there may be circumstances where it is appropriate for a distribution network business to undertake a targeted deployment of smart meters, if approved by the AER.

## **The COAG Energy Council rule change proposal**

- States that nothing in the proposed arrangements should prevent a distribution network business from offering payment for metering services to support a DSP business case.

## **Difference between Power of Choice and rule change proposal**

Whether distribution network businesses will be:

- required to obtain advanced metering services through commercial arrangements with MCs (independent MC or its own ring-fenced MC); or
- allowed in limited circumstances to carry out their own targeted deployment, as part of their regulated business.

# Stakeholder views in submissions

- **AER and retailers** - Distribution network businesses should obtain advanced metering services through commercial arrangements with MCs and not be allowed to install smart meters as part of their regulated business.
- **Sample of retailers** - Distribution network businesses considering the installation of meters as part of a DSP program should be required to carry out a transparent competitive tender process. One retailer suggested site MC and retailer should be informed to ensure coordination on metering requirements.
- **ENA and distribution network businesses** - In favour of distribution network businesses being able to install smart meters as part of their regulated business where it is efficient to do so for network purposes, even if just for a limited time until the competitive market develops.
- **Sample of distribution network businesses** - Distribution network businesses (as part of their regulated business) should be able to install smart meters in rural/ regional areas if no other MCs are willing to do so.

# Scenarios to be explored

- To help explore the alternatives identified by stakeholders and the issues that may be associated with each, we have developed three scenarios.
- The scenarios assume that there is no smart meter in place. If a smart meter is already in place, distribution network businesses should negotiate access with the MC.

## **Guiding principles**

- Distribution network businesses should be able to access services provided by smart meters to reduce the need for network augmentation and/or improve network performance.
- Distribution network businesses should be able to contribute to the costs of installing a smart meter if one is not in place, if there is a net economic benefit to consumers.
- Commercial arrangements should be the primary mechanism by which distribution network businesses obtain advanced metering services.

# Scenario A

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**A distribution network business provides funding (in full or in part) to independent MCs (retailer owned or other MC businesses) in its network area to install smart meters**

- In this scenario, the distribution network business would enter into commercial agreements with MCs in its network to install smart meters and could provide partial or full funding for the installation.
- Subject to AER approval, the distribution network business could recover the costs payable under these commercial agreements through the normal processes for DSP program or non-network solution.

# Scenario A: Questions

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1. Are there any issues associated with distribution network businesses funding the installation, as opposed to entering into a contract for the provision of services once the meter installed?
2. Is there anything in the Rules that would prevent a distribution network business from recovering expenditure incurred under this type of contractual arrangement? If so, are changes to the Rules required to address this?

# Scenario B

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## **A distribution network business provides funding (in full or part) to its ring-fenced MC (as MC at relevant sites) to install smart meters**

- Variant on scenario A, with the MC in this case being distribution network business' own ring-fenced entity.
- In this scenario, the distribution network business enters into an arm's length contractual arrangement with its own ring-fenced MC to install smart meters and could provide partial or full funding for the installation.
- Subject to AER approval, the distribution network business could recover the costs payable under these commercial agreements through the normal processes for DSP program or non-network solution.

# Scenario B: Questions

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1. Will distribution network businesses have an appropriate incentive to keep costs down given the related party nature of this transaction?
2. Are existing AER processes sufficient to scrutinise related party transactions?
3. Are there any impediments in the Rules that would prevent a distribution network business from recovering expenditure incurred under this type of arrangement? If so, are changes to the Rules required to address this?
4. Are there any competitive procurement issues that need to be considered?

# Scenario C

**A distribution network business carries out a targeted installation of smart meters as part of its regulated (non ring fenced) business in the following limited circumstances:**

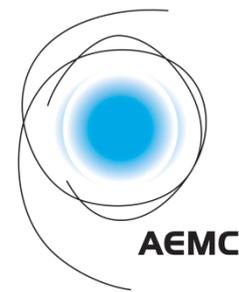
- the distribution network businesses is the MC because it has been granted a ring fencing waiver;
- there is no competition for the provision of MC services in that area and competition is not expected to evolve for a defined period;
- consumers are expected to yield a net economic benefit from the installation; and
- the installation has been approved by the AER.

The metering asset would be provided as part of a regulated service and form part of the distribution network business' regulated asset base.

Given the adverse affect this scenario could have on the competitive framework, this option would only be available in exceptional circumstances.

# Scenario C: Questions

1. Is there a need for this scenario, or should the distribution network business just be required to enter into a commercial arrangement with its ring fenced MC (i.e. Scenario B)?
2. What benefit would this scenario provide over Scenario B (e.g. should the service be regulated)?
3. Are the limitations sufficient, or are others required?
4. How could the distribution network businesses demonstrate that there is no competition and competition is unlikely to evolve for a defined period?
5. What will happen if competition in the MC market evolves in the area and the retailer decides to appoint another MC?
6. What changes to the Rules or competitive framework would be required to enable this scenario?
7. Should customers be able to opt out from the installation?



# Session 4

## Existing load control capability



# Recap

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## **The COAG Energy Council proposal**

- Where there is existing load control capability or functionality, this must be retained if the meter is replaced.

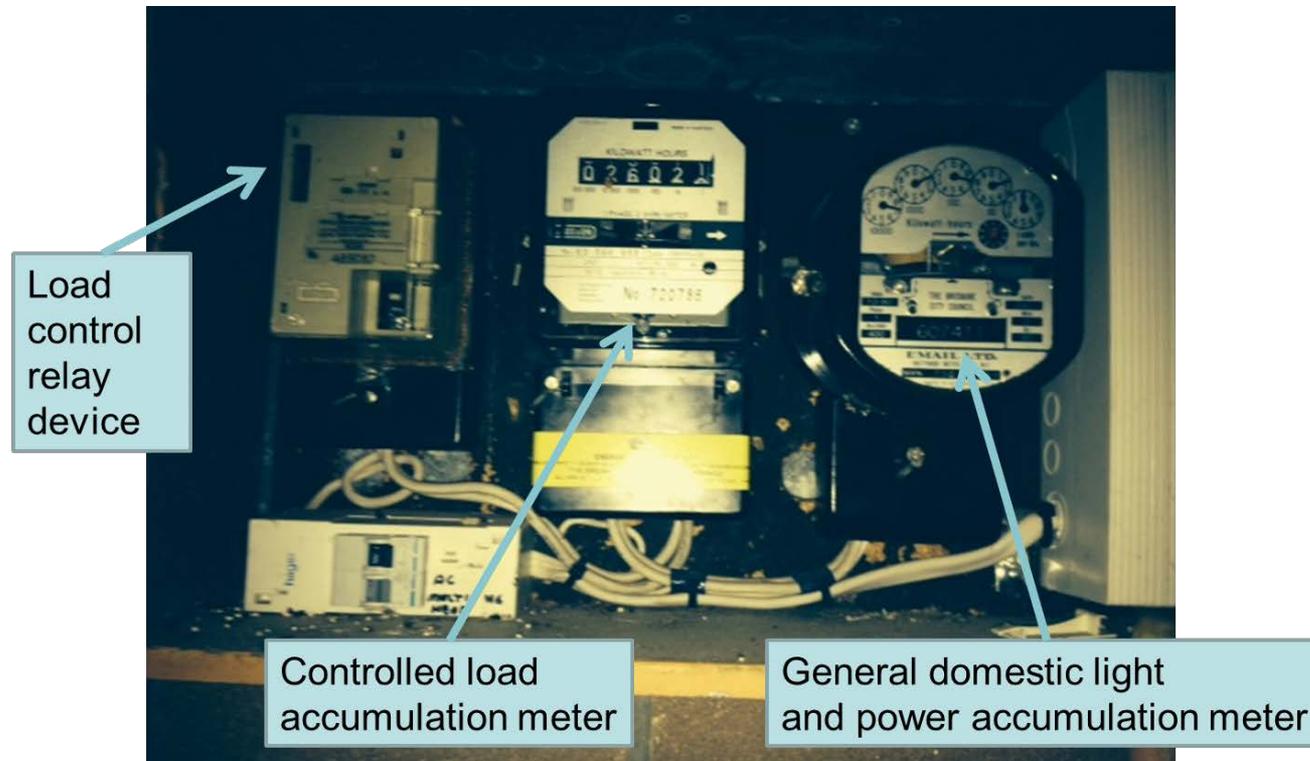
## **Stakeholder submission views**

- Generally there is industry consensus about maintaining existing load control capability.
- Distribution network businesses highlighted concern about existing equipment used for network operational purposes could be removed by a Metering Coordinator without their consent.
- Distribution network businesses also proposed an ability to retain their load control device if they cannot negotiate a satisfactory arrangement with the Metering Coordinator to access equivalent functionality in the new meter.

# Issues for discussion

Existing load control capability in a distribution network can be:

- separate to the meter; or
- included in the meter and thus forms part of the meter's functionality.



## Issues for discussion (2)

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### **SCENARIO A**

A Metering Coordinator upgrades/replaces a meter that includes load control capability.

The Metering Coordinator would need to make sure that the new meter provides at least the same level of load control functionality and remains operational.

## Issues for discussion (3)

### **SCENARIO B**

The existing load control capability does not form part of the existing meter but sits within the 'meter box/ switchboard' (ie relay device).

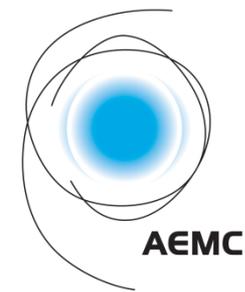
The NER currently operates to exclude load control devices from forming part of a metering installation in circumstances where the devices is not, at least in part, controlled for the purposes of metrology.

The Metering Coordinator may not be able to remove or alter the existing load control capability without the agreement of the distribution network business.

# Additional issues

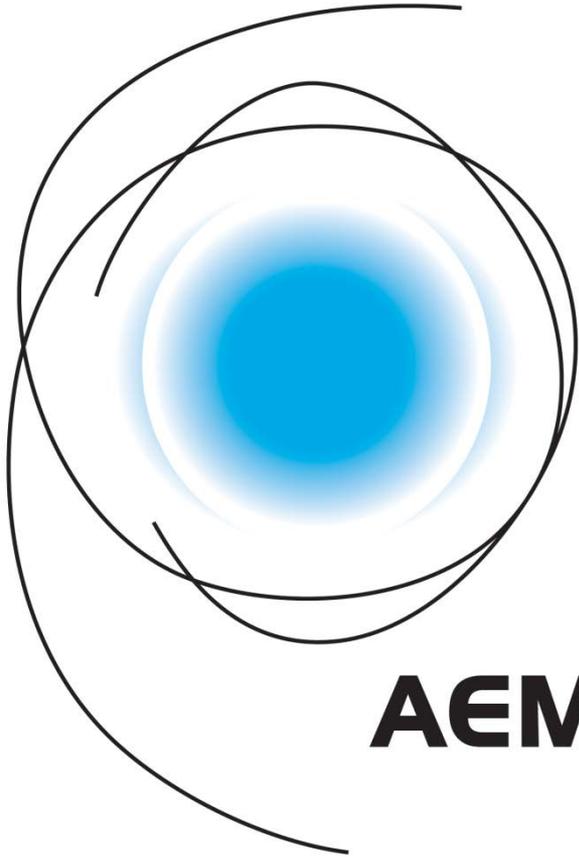
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- Provisions required in the NER relating to a Metering Coordinator's obligations.
- Addressing the existing inconsistency between the NER and the metrology procedures regarding the “components of a metering installation”.
- Where meters are replaced with the same functionality – how the existing services continue to be accessed and used by the distribution network business and services offered to consumers.



# Wrap up and next steps





**AEMC**