

1 August 2013

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1255

**National Electricity Amendment (Victorian Jurisdictional Derogation, Advanced
Metering Infrastructure) Rule 2013**

Dear Mr Pierce,

Thank you for the opportunity to make a submission with respect to the Proposed Rule Change and the AEMC's consultation paper. Please note that we reference some terms contained in its glossary.

Metropolis is supportive of the AEMC's Power of Choice initiatives and believes that competition should be preserved at all levels of electricity metering across the National Electricity Market.

We are also supportive of the Victorian Government's stated intention to adopt the AEMC's recommendations in this regard.

However, we wish to state in very clear terms that we do not support the Victorian Jurisdictional Derogation and see no need for an extension.

The Proponent claims that the derogation is necessary as a supporting framework for metering services competition is not in place. The Proponent is misinformed in this regard

and does not have a detailed understanding of industry systems and processes as they currently exist.

Properly developed business-to-business processes that fully support metering services competition operate in the National Electricity Market today and ensure that benefits are delivered to consumers.

Addressing each of the Proponent's claims:

- **Increased barriers to retail competition and switching associated with customers having to potentially change meters when they change retailers.**

Industry processes are designed specifically so that a meter change is never required in order to facilitate a customer transfer.

The key system here is MSATS – operated by AEMO. This is the B2B system used for all transfers between retailers.

In the context of MSATS a transfer is processed as a change of the Financially Responsible Market Participant (FRMP) at a given date. So, for instance, the FRMP may change from AGL to Origin, or from Red Energy to Momentum Energy.

A transfer – or change of FRMP – is initiated by the retailer that has won the customer. A B2B transaction – called a change request – is raised in MSATS and notifies all parties that have a relationship with the relevant connection point (identified by its NMI) of the pending transfer.

Critical to this process is the metering services provider.

The transfer must coincide with an actual read. In the case of a basic (type 6) meter this means the transfer must remain pending until the next scheduled – manual – read. But with a smart (type 4) meter the transfer can proceed immediately.

The metering services provider processes the transfer completion date on the winning retailer's behalf. From that point the final meter read is delivered to the old retailer and subsequent meter reads are delivered to the new retailer (or FRMP) – this is all done via MSATS.

What is critical to note here is that the process does not require the retailer (that has won the customer) to initiate a change of metering services provider or meter.

The existing metering services provider – regardless of which party that is (distributor or competitor) and regardless of the meter type (Type 4, 5 or 6) is obligated under market rules, MSATS procedures and AEMO service levels to facilitate the transfer in accordance with the winning retailers instructions.

There is no deviation from this and no barrier to any retailer using MSATS to transfer customers.

Metropolis has installed thousands of residential smart (type 4) meters across Australia, and customers have freely transferred, subsequently, between retailers.

MSATS provides a report to retailers prior to initiating a transfer request – at a process point called NMI discovery – that identifies the current metering services provider. So the retailer is aware whether metering services are provided by the local distributor or another service provider – such as Metropolis.

When raising a transfer request in MSATS the retailer may choose to nominate a metering services provider other than the incumbent, in which case the transfer will coincide with the date of a meter change.

The operative word here is ‘choose’.

The retailer is making a conscious choice to change the metering services provider based on a decision made with their customer – but there is nothing in market rules that compels them to do so.

- **The installation of a meter by a retailer may also create a barrier to consumers changing electricity retailers depending on how charges for that meter are handled under the customer’s contract with the retailer. This may have an impact on the competitiveness of the electricity retail market.**

It is interesting that the Proponent should make this comment. Presumably an inference to ‘exit fees’. But the only enforced ‘exit fee’ of which Metropolis is aware is that proposed to be paid the distribution businesses.

MSATS exists to easily facilitate transfers and under metering contestability contractual arrangements are between each retailer and the metering services provider.

We cannot see how contractual arrangements with one retailer would act as a barrier for another retailer winning a customer given the market obligations of AEMO accredited metering services providers.

The winning retailer is in the prime position. If the metering services provider is unco-operative or wishes to charge an exorbitant rate then the retailer has the option of appointing another service provider – either at transfer or after.

This puts the metering service provider in the position that if it wishes to protect its asset base it must work with the retailer to provide an efficient service at a reasonable price.

There is no scope to charge an 'exit fee' to a retailer it does not have a contract with.

Sadly, there is scope for Distributors to levy a regulated exit fee every time a retailer chooses a competitive option.

There is no need for exit fees in Victoria. At the end of 2013, distributors will have collected on average approximately \$620 from every household in Victoria (based on the regulated metering service charges collected since January 2006). This more than compensates distributors for the cost of the AMI deployment which has so far cost twice a competitive rollout.

There is no further cost to the distributor when the meter is removed, and it is an AEMO service level requirement that the metering services provider removing a meter must return it to its owner. The distributor is then able to redeploy the asset.

Metropolis sees no reason why an additional burden should be placed on consumers who wish to legitimately engage a competitor service, particularly when there is no actual cost to the distributor when this occurs.

- **Business-to-business (B2B) processes for metering competition would need to be automated. They are currently quite manual, and therefore expensive, as they are used for only a small number of large electricity consumers.**

As noted above B2B process for metering competition are fully automated in MSATS and require no manual intervention at all.

The processes used for large electricity customers are exactly the same as those used for residential electricity customers and work exceedingly well in volume.

MSATS was designed and built entirely for transactional volume.

- **The current automated business-to-business processes for small customer meters, such as those relating to remote de-energisation and re-energisation, would need to be modified. They assume that the distribution businesses, not the retailer, are responsible for the service.**

B2B processes, which assume that the distribution business has service responsibility, do not require modification.

The B2B hub used by the industry is not a compulsory system, nor is it the most efficient mechanism for initiating service delivery. The industry encourages and supports alternative arrangements (processes and systems) between participants where those are considered appropriate to deliver service innovations.

Metropolis enables retailers to engage directly with each meter through its communications network to initiate a remote de-energisation or re-energisation.

This is done entirely outside of existing industry B2B processes with response times measured in seconds.

This means that a customer can be on the phone, with a retailer energy consultant, to walk through the re-energisation process – from arming the meter to energisation – as it happens.

When remotely de-energising or re-energising a connection point the retailer and Metropolis comply with the safety standards developed in consultation with the safety regulator (Energy Safe Victoria).

A very safe, reliable and innovative process.

When a site is de-energised the metering services provider is required under AEMO service levels and MSATS Procedures to update the datastream status to inactive. This notifies the retailer and distributor that the site is de-energised and no data will be provided until the data stream is reactivated (when the site is re-energised).

What Metropolis allows the retailers to do is no different to what the distributors do technically. That is an operator triggers the remote de-energisation or re-energisation request from a system interface.

The difference is that under the current B2B arrangements the operator is in the employ of a distributor and acting on instructions received from a retailer – with response times measured in hours or even days.

Current B2B processing adds inefficiencies by requiring additional process steps that can be eliminated by allowing retailers direct access to meter functions.

Metropolis has developed a range of services with retailers that allow them and their customers real time access to metering functions not available from the distributors – such as real time meter data polling (a pull function) and real time messaging to in-home displays (a push function), for which Metropolis won the 2012 smart meter innovation of the year award.

- **Processes and systems would need to be introduced for responding to meter faults where the retailer is responsible for the meter.**
- **There is a risk that metering contestability may have an adverse impact on the reliability of a customer's supply where there is a meter fault through longer outages. This may arise where a Local network Service Provider initially responds to a fault reported but then needs to refer the incident to the retailer where there is a meter fault and the retailer is the responsible person for the meter.**
- **The proposed rule change (ie. derogation extension) will ensure timely restoration of supply for customers with a meter fault.**

The AEMC needs to be clear that meter faults do not cause disruptions to the customer's supply.

If a smart meter fails it affects only the quality of metering data. The supply circuit through the meter cannot fail – meters are designed this way – and the customer does not experience an outage.

As such, meter faults are the responsibility of the metering services provider, with rectification requirements contained in the National Electricity Rules and AEMO service levels (a condition of accreditation).

The first party to detect a faulty meter is always the metering services provider, either by a meter alarm or because data has failed validation (see metrology procedures).

Supply outages are an entirely different matter – caused by network shutdowns, blown fuses and wiring faults – it is normally the customer that detects outages when the lights go out and contacts the distributor or retailer to report.

- **Customer protection arrangements would need to be changed to accommodate metering competition while protecting consumers' interests.**
- **The introduction of metering competition at the same time as flexible pricing may compromise the ability of retailers and consumers to understand the benefit from innovative tariffs.**
- **It is questionable whether there will be sufficient consumer confidence in the benefits of competitive metering services espoused by the retailers.**

It is sad that the Proponent seems intent to undermine the position of retailers, who have the primary relationship with consumers, rather than work with them as allies in a common cause.

Retailers are best positioned to communicate with consumers and work with them to understand the benefits of new technologies and pricing options.

There is most definitely a level of distrust by Victorians toward the AMI rollout. But those of us with a vested interest in the technology and the customer relationships have an interest in delivering service and price innovations to customers.

I would ask the Proponent - Why are we not working together?

The re-introduction of competition will not negatively impact the introduction of flexible pricing.

In fact, it will enhance the value proposition by making it available to more Victorian consumers and at a lower price point for metering services.

In Victoria metering services charges are unbundled from distribution use of system charges. This means that when a retailer appoints a metering services provider other than the distributor, it can no longer be charged by that distributor and is charged by alternate metering services provider instead.

The 2013 AER regulated metering services charge for a single-phase meter in Jemena's area is \$173.38. Metropolis's charge for an equivalent service is \$125.00. A saving of \$48.38 that can be passed on to the consumer.

What greater way to engender confidence than to deliver a demonstrable decrease in metering services charges through competition.

Competitive meter provision in Victoria will mean lower prices and better services for Victorian electricity consumers. If the derogation is allowed to expire, there is greater

scope for retailers to provide better value and lower costs to their customers. Since metering charges are separately billed in Victoria, retailers are able to pass on cost savings to customers where competitive meter providers are able to deliver the same service at a lower cost. This is a direct cost saving for consumers.

Under a three-year extension to the derogation it can be expected that the regulated service charge will continue to increase as it has done each previous year.

Metropolis estimates that a house-hold in Jemena's area will pay \$600-\$650 over the period of the derogation extension (2014-2016). But with a Metropolis meter the same household would pay only \$375 dollars for a saving of \$225-\$275 over three years.

Victorian consumers will needlessly pay \$350-\$400million over the three year extension period – with no discernible benefit.

Victorians have already paid enough for this rollout – Why are they being asked to pay more? Any benefit from flexible pricing will be dramatically eroded by higher than necessary metering charges.

Competitive smart (type 4) metering must comply with the National Electricity Rules and therefore ensure the availability of flexible pricing options.

- **Meters for which retailers are responsible may not support efficient network operation, resulting in additional costs and associated impacts on security and reliability of electricity supply.**

Meters for which retailers are responsible fully support efficient network operation.

Under National Electricity Rules and AEMO service levels contestable metering services providers must provide metering data to each distributor. A process facilitated through MSATS with daily data delivery to each participant.

Metropolis's residential meters conform to the functionality requirements contained in the Order in Council have additional capabilities, including:

- remote meter reading;
- remote poll (pull) reads;
- bi-directional (import/export) smart metering;
- solar generation metering;
- hot water load control;
- remote de-energisation/re-energisation;

- quality of supply monitoring;
- remote meter reprogramming;
- in-home display energy monitoring; and
- push messaging.

Distributors may subscribe to the use of these functions at any time, without restriction and without the need for standardised communications protocols.

The derogation inhibits further innovation that may benefit distributors – including the development of the remotely read metering platform to communicate with electric vehicle charging systems, embedded generation systems such as gas fired co- generation, and home area network interface to potentially control customer discretionary loads during peak load periods.

With competitive service provision, these innovations will be possible without government intervention, they will evolve in the market as demand for innovative products arise.

- **Competition will continue to exist for the provision of metering services to the Local Network Service Provider, as the responsible person.**

The Victorian distributors have never engaged with competitive metering services providers as defined in the National Electricity Rules.

Not one smart meter has been installed in Victoria where, as responsible person, the distributor has appointed a metering services provider other than themselves.

Not once. Not on a single occasion has a distributor willingly allowed Metropolis to install a residential smart meter in Victoria, whether asked by a retailer or a customer directly.

In 2011 Metropolis was asked to install approximately 100 residential smart meters in Gippsland to assist a group of customers looking for an innovative solution to support their solar generation systems.

The options were to pay hundreds of dollars to the distributor for basic bi-directional meters that would later be replaced by smart meters or pay a reduced price for a fully functional smart meter equipped to also measure the output of the inverter, with online data access.

Working with a retailer Metropolis installed its meters.

The response from the distribution business was swift and uncompromising.

The distributor blocked the MSATS transactions that allowed registration of the meters. The distributor threatened to remove the smart meters. The distributor refused to provide the solar feed in tariffs to the customers.

But not once did the distributor offer to be the responsible person in the retailer's stead and allow Metropolis to be the metering provider. Not once did the distributor consider the needs of these 100 consumers.

All this distributor did was throw its weight around and do everything possible to disrupt the choice these consumers had made. And for a service it could not deliver.

Metropolis wrote a number of detailed submissions in 2008 opposing the imposition of this derogation¹. In these submissions we detailed a number of scenarios where there were clear customer benefits in continuing to allow metering competition:

Examples of legitimate reasons for wanting a smart meter sooner are:

- A meter upgrade is required anyway for a solar PV installation.
- It is a new connection.
- A meter panel upgrade is required.
- For a small businesses customer, a retailer may make a valid business case for the extra features.
- A project is conceived where functionality required goes beyond the standard minimum functionality, and/or which the distributor is unable to provide immediately and/or at a cost similar to the contestable market.
- Gate metering on embedded networks. Here, the consumption will grow as the embedded sites come on line, so it may start below the threshold, and then move above it.
- National Solar Schools program. Smart meters are compulsory, but most schools fall below the 160MWh threshold.
- A customer with multiple NMIs where some are above and some below the threshold, who wants a consistent service across all sites.
- A customer with sites across multiple distribution areas who wants a consistent service across all sites.

¹<http://www.aemc.gov.au/Media/docs/Metropolis%20Metering%20Assets%20-%20Received%2018%20Feb%2008-8518d25d-2199-419d-9fd6-632dc3aa43f0-0.pdf>, and <http://www.aemc.gov.au/Media/docs/Metropolis-16250d7f-3e59-417e-86ee-6b919b8e1c70-0.PDF>

In all of these cases, there have been increased costs for the customers as a result of the derogation.

Customers who have installed solar panels, for example, have paid the distributor for a bi-directional meter that has been or will be replaced by a smart meter, on top of the charges they are currently paying for the rollout of their smart meter. If the retailer had been able to engage Metropolis directly, then this additional cost would have been avoided.

The original derogation, which created a temporary small customer monopoly for the Victorian distribution owned metering businesses, was predicated on the unproven, principles that it would reduce the AMI costs for Victorian consumers, and that the rollout would occur more quickly than if competition were allowed to continue.

Both of these assumptions have proved to be wildly incorrect.

AMI deployment costs under a distributor monopoly were originally estimated to be A\$353 million². But subsequent analyses have shown this figure to be at least A\$1.8 billion³. Subsequent reports have put this figure even higher, as much as A\$2.3 billion.

The proposed derogation extension will net the distributors a further uncontested \$1.3 billion from Victorian energy users.

Under the original cost benefit analysis, the costs of a rollout by competitive service providers was estimated at A\$954 million⁴. This figure was based on submissions by Metropolis and holds true to this day. That is, had the AMI rollout proceeded under a competitive framework Victorian would have paid half what they have today.

The AEMC stated, when making the original determination, that one of the key considerations in allowing the derogation was that “a Distributor Led Rollout would provide more certain and timely delivery of the mass rollout providing greater certainty that all small customers would receive AMI during the mandated period.”⁵

Surely the justification for a derogation has been totally discredited. Every assumption made to support the derogation has been proved wrong. Yet many of the assertions

² Impaq Consulting Cost Benefit Analysis 2005

³ Benefits and Costs of the Victorian AMI Program, Oakley Greenwood August 2010.

⁴ Impaq Consulting Cost Benefit Analysis 2005

⁵ AEMC, Draft Rule Determination p37

regarding inefficiencies and a market unprepared for competition have been dusted off and re-hashed.

Time for innovative service providers to step in and provide real benefits for consumers.

It is in the interests of market certainty that the derogation be allowed to expire as it was designed.

As Metropolis stated in its original submissions, one of the key inhibitors to investment in metering in the National Electricity Market is the constant tinkering with the rules. Why would any rational organisation invest in a market where there is a constant threat of the market suddenly becoming closed to them.

The Power of Choice recommendations have added enormously to the confidence of investors. This derogation proposal – if accepted – again threatens that confidence.

Where there has been certainty in an end date to the derogation, now there is again uncertainty. Will that be the final end date, or will it be extended again. Perhaps even made permanent.

This is an abuse of process on the part of the Victorian distributors, and it should not be allowed to occur.

Metropolis would encourage the AEMC to review our previous submissions to the original derogation proposal and to the National Cost Benefit Analysis conducted in 2007 and, more recently, to the Power of Choice Review.

Our position has never waived and our predictions have proved correct.

The National Electricity Objective is best served by allowing the derogation to end.

We look forward to your determination and thank you again for the opportunity to comment.

Sincerely

Marco Bogaers
Chief Executive Officer