

20th October 2015

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

DRAFT RULE DETERMINATION

National Electricity Amendment (Embedded Networks) Rule 2015

Dear Mr Pierce,

Metropolis Metering Services Pty Ltd (Metropolis) is an AEMO accredited Metering Provider and Metering Data Provider with a significant volume of contestable and off-market meters installed across homes and businesses in all states and territories in the NEM.

Metropolis supports the intention of the *Embedded Networks* rule change request, and welcomes this opportunity to provide input into the draft determination. As an existing provider of metering services to embedded networks, Metropolis has a keen interest in improving the regulatory framework supporting embedded network customers.

In the attached appendix, Metropolis discusses areas of the determination which are unclear or may have unintended consequences. In particular, this response focuses on the metering arrangements for Embedded Networks, and the efforts to align these arrangements with standard industry practice.

Sincerely,

Charles Coulson
Regulatory Manager



Overview

Metropolis agrees with the rule proponent's position that Embedded Network consumers are disadvantaged unreasonably by barriers to selecting a market supplier of electricity. Metropolis also generally support the goals and high level approach to resolving this issue as outlined in the Embedded Networks draft determination, in particular creating an Embedded Network Manager (ENM) role, and the objective of aligning embedded network metering standards with the wider market.

Metropolis's view is that the proposed enhancements to align embedded network metering with on-market metering will improve the embedded networks metering situation significantly, however there will still be a gap between on-market and embedded network metering, which will result in a persistent barrier to consumers within embedded networks to accepting market offers. This barrier does not exist for standard, on-market customer transfers.

The draft determination clearly outlines the intention to improve metering accuracy, however this is only one of many components of metering. It is unclear what the policy position is in terms of consumer protection, market interaction and other supporting capabilities. While this relates to the AERs exemption guidelines, not the rules, clarity on the vision for the overall solution is important to be able to discuss the implications.

It is also clear within the determination that there are competing drivers for the efficient sharing of embedded network metering between ENOs and authorised retailers. While the draft determination has concluded that these drivers will result in the parties sharing metering efficiently, Metropolis is unclear on how this can occur in practice.

Supporting positions

Metropolis supports the majority of the elements of the rule change proposed in the draft determination.

Appointment of ENM

Metropolis support the AEMC's approach of allowing the AER discretion, within the proposed guidelines, for assessing which embedded networks are required to appoint an ENM.

Jurisdictional regulations

Metropolis strongly supports the AEMC's position of relaxing and harmonising jurisdictional regulations in regards to embedded networks. As a national provider of metering, Metropolis deals with jurisdictional differences on a daily basis, and sees this as a barrier to effective competition.

Metropolis is keen to have clarity on the level of engagement between jurisdictional regulators and the AEMC, in order to better understand the likely outcomes of this recommendation.

Timing and Implementation

Metropolis support the AEMC's proposed timeframe and alignment with the implementation with *Competition in Metering* and other Power of Choice initiatives.

However, Metropolis note that it is critical that any delays to the embedded network rule change do not negatively impact implementation of the *Competition in Metering* rule change.

Default, Deemed, Grandfathering

Metropolis fully support the AEMC's position that default or deemed ENM's are not required. This allows a robust and undistorted competitive market to arise for ENM services.

Metropolis also strongly support the AEMCs draft position that the proposed implementation timing removes the need for grandfathering.

Partially support

Metering

Metropolis support the proposed recommendations to changes to the AERs network exemption guideline to more closely align the requirements for metering of an Embedded Network with market-metering.

Metropolis's view is that the rule changes as proposed will have a significant positive impact on the ability for embedded network consumers to access contestable energy products, and drive significantly improved metering outcomes for embedded network customers. This clearly results in an overall benefit to consumers and the industry, as discussed in the draft determination.

However, Metropolis's view is that the impacts of the proposed recommendations in regards to metering are more complex than are described within the draft determination. In particular:

- 1) Retaining Embedded Networks metering so it can be used on-market involves more than an accurate meter. There are significant obligations on accredited MP related to customer protection and compliance. For example: MPs are frequently audited to ensure ongoing compliance, are required to maintain insurance levels and have obligations when removing another provider's meter. It is unclear how many of these requirements are expected to be included in the AER's exemption guidelines.
- 2) The drivers for ENO's to cooperate with authorised retailers to allow access to metering are asymmetric: a consumer going from an ENO to an authorised retailer must use a meter provider who is fully compliant, where a consumer returning to an

ENO product will have lower requirements, under the current determination. This skews the incentives and market power of negotiating parties, putting a higher cost on moving from ENO to contestable energy offer.

- 3) Market processes are in place to support an efficient transfer of rights and obligations between parties, minimising the barriers to entry for both MPs and Retailers. As ENOs are not party to these obligations, the complexities and risks of working within an embedded network are increased.

Below, these issues are further explored.

Retaining Embedded Network metering

A physical meter being of standard to be used on-market is not sufficient criteria to allow a meter to transfer from off-market to on-market. Clearly any obligations on market-MPs which do not apply to providers of embedded network metering causes a gap which may result in a barrier to a consumer accepting a market offer.

- Accuracy: The accuracy of the metering is clearly critical. This is discussed and supported by the draft determination.
- Safety, security and capability: It is Metropolis's understanding that the intention of the recommendation to the AER will be to increase the requirements on metering to make safety, security and capability match on-market metering. This includes access, fuse rating, access to meter passwords, and Type 4 metering (pending *Competition in Metering* rule change).

The AEMC's approach for the treatment of these items are not clear in the draft determination, and further clarity would support improved analysis of the impacts of this rule change.

- Customer protection: Accredited Meter Providers are required to provide high levels of insurance and confidentiality, as well as support efficient functioning of the market. This includes rules when removing another Meter Providers assets (ensuring a final read is taken, returning the physical meters), dispute resolution procedures, storage and provision of meter data, standard estimation routines, etc.

These capabilities do not appear to be considered in the draft determination and it is not clear what the policy position is. If they are not required for embedded network meter providers, then consumers in an embedded network will continue to receive a lower level of service and a lower cost-to-serve (which may or may not be passed through to the consumer).

While the AER has ownership over the exemption guidelines and these issues will likely be further consulted with them, it is informative on the determination to have a clear view of the outcomes, and to support the AER and industry in assessing the scope of work.

Metropolis's view is that embedded network meter providers should comply with all the consumer protection requirements, in order to maximise alignment of on-market and embedded network metering from a consumer perspective.

Incentives for cooperation

Metropolis accept the three incentives, identified by the AEMC, that are likely to drive ENOs decision making in regards to support the retention of ENO metering after a consumer accepts a market energy offer:

- Negative incentive, to create a barrier to the customer leaving
- Positive incentive, to sell/lease the meter for revenue
- Positive incentive, to prepare for reciprocation of sharing of resources.

The draft determination indicates that these incentives are identical to those faced by authorised retailers during the transfer of a customer to another authorised retailer. The ability for an authorised retailer to exercise market power via access to metering has been explicitly addressed in the *Competition in Metering* process. The solution in the *Competition in Metering* draft determination is that a FRMP is forbidden to be the Metering Coordinator (MC) for a site. This means that the Retailer cannot own the meter, nor are they (directly) responsible for the meter installation and maintenance.

This is different to an ENO, who can effectively be both the MC and the FRMP for a site. When an ENO wins a customer back, this allows the ENO to engage in inefficient meter replacements for the explicit purpose of raising barriers to competition. This clearly does not meet the NEO.

The result is distorted incentives and a biased decision process, which has been addressed in the *Competition in Metering* draft determination, but not in the *Embedded Network* draft determination.

Metropolis's also notes that, if this scenario is allowed, the increased likelihood of a meter being removed from an embedded network is likely to result in an increased risk-premium for on-market EN metering. This, in turn, increases the barrier to competition.

Market processes

The metrology procedure describes processes related to the transfer of metering between one provider and another. All on-market Meter Providers are required to use this procedure when installing a meter, including when they remove another meter providers meter.

These procedures have been managed over many years to support efficient market processes and customer services. If ENOs are not obliged to follow these processes, then there is a risk for on-market meter providers offering services within embedded networks.

Going on-market.

Currently, when an MP changes on a site, the physical meter is exchanged. This is a common process and fully supported by market interactions and obligations on both parties to support each other to fulfil obligations. In the case of an ENO offering the use of the metering to a market participant, the process is quite different.

Instead of replacing the meter in a compliant meter box/board/room, the policy position is to encourage the incoming MC to assign an MP and to negotiate for access to the existing metering. This is viable only if the cost of verifying compliance is less than the cost of exchanging the meter. The incoming MC/MP could verify compliance by:

- Reviewing ENOs processes and records for the site.
- Performing an on-site audit.
- Use a third party audit report of the ENOs capabilities and processes.

The first two of these are relatively time-consuming and expensive, and as such would create a persistent barrier to competition. This barrier may be lower than replacing the metering, however it's hard to determine at this stage.

The third option appears to Metropolis to be the most viable. If ENO meter providers were supported by an external compliance regime (AEMO being the obvious candidate), then the level of confidence in metering would be the same as that of on-market scenarios.

However, it's informative to note that on-market Meter Providers do not sell or offer services to each other. This is for the simple reason that changing ownership of a meter is complex: There are security issues (meter passwords), asset quality issues (certificates of compliance), and capability issues (some MPs can only communicate with one brand of metering). It is unclear why the AEMC considers that this will be effective with ENOs, when it is not effective between on-market participants with closer alignment in terms of regulatory compliance.

If an ENO were to be accredited by AEMO (or use an accredited meter provider), however, an incoming MC would be able to retain the ENO as the on-market MP/MDP, and no change of metering would be required. Metropolis's view is that this is the only viable approach to retaining ENO metering when a customer elects to go on-market.

Going off-market.

The draft determination indicates that consumers can elect to return to the ENO energy business, and that the metering would then be managed under an off-market regime. Metropolis has current examples where this has occurred, and the ENO has removed Metropolis's metering. This has been a very awkward process.

As the ENO's metering providers do not follow standard procedure, it is difficult to get final readings or to recover the physical assets. In one case, the NMI was not removed from market systems, so Metropolis still had obligations to provide data, the FRMP was still settling on the substitute data and invoicing the customer – and the ENO also started sending invoices to the customer!

It is critical that whatever exemptions are provided for ENO meter providers, these must work in conjunction with existing market processes. This is the purpose of the ENM role, however the scope does not include compliance with physical work (such as returning physical meter assets to their owner), and it is unlikely that it considers things such as churn-data, which is required in order to enable on-market MPs to be compliant. As such, Metropolis see that there is still a gap in the interactions between market and off-market metering, which could limit the benefit of this rule change.

Summary

Metropolis supports the AEMCs proposed determination, however it is not clear that some of the anticipated benefits will eventuate: in particular, the ability to retain existing ENO metering when a consumer elects to take up a market offer for energy. This will, in turn, result in an ongoing cost, and thus barrier to ENO customers participating in the competitive electricity market.

The ability for an ENO to remove high-quality, market based metering when a customer returns to the ENO for energy services is likely to result in a risk-premium attached to embedded network metering.

These issues mean that while the situation is improving significantly for embedded network customers with this rule change, they are still disadvantaged in selecting competitive retail offers.

END