

# Competition in metering and related services – rule change

Stakeholder workshop 5

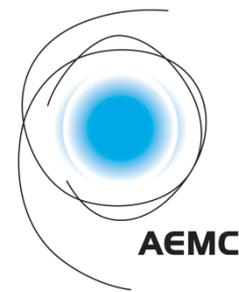


Thursday 9 October 2014  
AUSTRALIAN ENERGY MARKET COMMISSION

# Outline for the workshop

---

1. Minimum functionality specification
2. Proposed jurisdictional arrangements
3. Transitional arrangements for Victoria
4. Timeframes and requirements for implementation



# Session 1

## Minimum functionality specification



# MINIMUM FUNCTIONALITY & SHARED PROTOCOL UPDATE

9 October 2014

Lee Brown

1. Background
2. AEMO approach
3. Progress update
4. Reference group outcomes
5. Other considerations

End

A decorative graphic at the bottom of the slide consisting of multiple overlapping, wavy lines in shades of orange and red, creating a sense of motion and depth.

# 1. BACKGROUND

- On 25 June 2015, AEMO received terms of reference from the COAG Energy Council requesting advice on:
  - Smart meter minimum functionality specification by October 2014 (now 14 November 2014); and
  - Requirements for a shared market protocol for smart meter communications by February 2015.
- The smart meter minimum functionality specification is intended to inform:
  - Jurisdictions' metering policy to be considered at the COAG Energy Council meeting in December 2014; and
  - The Australian Energy Market Commission (AEMC) Metering Competition Rule Change about the specification of minimum service requirements for smart meter functionality.

## 2. AEMO APPROACH



- Established a reference group
- Commenced a fortnightly meeting schedule
- Created a working document for:
  - AEMO to construct and present a straw-man proposal to facilitate reference group discussion
  - To capture the development of that straw-man
  - To capture the feedback and comment from the reference group

## 3. PROGRESS UPDATE



### COMPLETED

- Reference group sessions for minimum functionality

### IN PROGRESS

- Advice drafting
- Public review and comment
  - 16<sup>th</sup>- 30<sup>th</sup> Oct 2014
- Submission of advice on target for 14<sup>th</sup> November

### COMMENCED

- Reference group sessions for shared market protocol

# 4. MINIMUM FUNCTIONALITY REFERENCE GROUP OUTCOMES



## SERVICES

- Advanced metering services are well understood
- Participants were able to identify:
  - Business outcomes delivered by those services
  - Required service levels and performance standards
- Unanimous agreement on a set of minimum services, including:
  - De-energisation
  - Re-energisation
  - Meter reading
  - Metering re-configuration
- Agreement on a set of other services, including:
  - Re-energisation through “arming” of meter
  - Load limiting (incl. “Supply Capacity Control”)

# 4. MINIMUM FUNCTIONALITY REFERENCE GROUP OUTCOMES



## CONTESTED SERVICES

- Supply outage notifications (“push” service)
- Supply restoration notifications (“push” service)
- Asset management services
- Enabling home area networks / customer access to data

## 5. OTHER CONSIDERATIONS

- Meter data file format specification (NEM12 & NEM 13)
- Role of Standards Australia
  - Forum arranged in late November (EL/011)
- Role of the National Measurement Institute

# Governance arrangements

---

## **The COAG Energy Council proposal**

- That AEMO establish, publish and maintain the smart meter minimum functionality specification.

## **Stakeholder views**

- No stakeholders raised how the minimum functionality specification could be implemented in the Rules.
- Stakeholders generally agreed that the specification should be for services enabled by the meter, rather than functions.
- Stakeholders generally support AEMO being responsible for governance of the specification, with industry involvement through consultation (including with consumers).
- One stakeholder suggested that AEMO and industry could manage the specification together through a committee.

# Governance arrangements (2)

## Guiding principles

- Balance between implementation in the Rules and Procedures.
- Fit with regard to expertise and the ability to assess market costs and benefits.
- Balance between industry involvement and independent oversight.

## Issues for consideration

1. What does the minimum functionality specification cover / include?
  - As outlined in the previous presentation, AEMO is preparing advice in consultation with stakeholders.
2. Implementation in the Rules/Procedures
3. Ongoing governance
4. Links to the Shared Market Protocol

# Governance arrangements (3)

## Implementation options

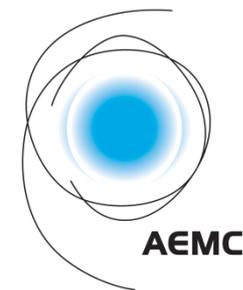
Implementation options in Rules	Governance implications
a) Require a minimum service specification and that this be developed by AEMO	<ul style="list-style-type: none"><li>• NER provides guiding principles for the development of minimum service specifications</li><li>• Minimum service specification procedure to be developed by AEMO</li><li>• Changes to the minimum service specification would follow AEMO's procedure change and consultation process.</li></ul>
b) Include the list of minimum services in the NER, with supporting procedures to set out the requirements for performance standards and other detailed matters	<ul style="list-style-type: none"><li>• List of minimum services amended through an AEMC rule change.</li><li>• Performance standards and other detailed requirements developed and managed by AEMO</li></ul>
c) Include the full minimum services specification in the NER, including services and performance standards.	<ul style="list-style-type: none"><li>• Any changes would require a rule change by the AEMC</li></ul>

## Governance arrangements (4)

---

### Ongoing governance

- Ongoing governance arrangements will depend on how the minimum specification is implemented in the Rules.
- If options (a) or (b) are adopted, the details of the specification would be developed by AEMO.
- Option (c) may delay the completion of this rule change.
- Governance arrangements for the shared market protocol, which will outline the method of communication between businesses using advanced metering services, will be considered by the AEMC in the implementation advice on the Shared Market Protocol.



# Session 2

## Proposed jurisdictional arrangements



# The COAG Energy Council's proposals

---

The rule change request proposed that jurisdictions should be able to:

1. Determine the functionality of meters that are installed in new and replacement situations, and whether these meters must meet (or be capable of meeting) all of part of the national minimum functionality specification.
2. Retain the ability to determine their own meter reversion policy through the NEM metrology procedure.
3. Prescribe one or more, or a class of, Metering Coordinators exclusivity to coordinate metering services for certain meter types.

# Issue 1: New and replacement policy

---

## Background

- The NER requires that all meters meet a set of basic metrology requirements.
- Jurisdictions can amend the application of some of these requirements through the metrology procedure, but there are currently no provisions regarding new and replacement meters.
- Current arrangements for new and replacement policies are different between jurisdictions:
  - Some are determined through a jurisdictional instrument, others are agreed informally between the government and the distribution network business.

# Issue 1: New and replacement policy (2)

---

## Stakeholder views

- All stakeholders who commented on the issue (except some distribution network businesses) rejected the proposal.
- Their concern is that jurisdictional decisions on new and replacement policies will:
  - compromise national consistency and interoperability;
  - put investment at risk;
  - stifle innovation and competition;
  - increase costs; and
  - limit economies of scale.

# Issue 1: New and replacement policy (3)

## Proposal

- The minimum functionality specification should apply nationally to all new meters, including in new and replacement situations.
  - This will support competition and the economies of scale that can be achieved through a nationally consistent approach.
- Consumers will not be given the ability to opt out.
  - This is the same as current arrangements, the only difference is the technological standard of the meter that must be installed.
  - Additional regulation would be required to provide consumers with an ability to opt out, and for this to be a meaningful choice.
    - It is unclear whether anyone will still manufacture accumulation meters.
    - The cost of manually reading these meters is likely to increase over time.
  - An ability to opt out would likely create a time delay between the meter breaking and a new meter being installed.

# Retailer-initiated deployment of advanced meters

## Proposal

- Consistent with our proposal for meters installed in new and replacement situations, we now propose that consumers would not have an explicit right to opt out under a retailer-initiated deployment.
- However, we propose that a retailer should be required to notify the consumer that it will be receiving an advanced meter. The notice would:
  - be sent at least 20 business days before the installation;
  - be sent separately to a customer's bill;
  - at a minimum, contain:
    - any fees the customer will be charged;
    - the expected date and time the installation will occur; and
    - the retailer's contact details.

## Retailer-initiated deployment of advanced meters (2)

---

### Proposal (cont.)

- Existing provisions in the NERR are sufficient to protect consumers regarding any changes in charges or terms and conditions.
- If a consumer does not want the meter, it can switch to another retailer.
  - In practice, this may result in retailers not installing advanced meters for consumers who object.

## Issue 2: Reversion policy

---

### Background

- A reversion policy clarifies whether an existing meter can be replaced with one of a lower functionality.
- The Rules state that a device capable of producing interval data cannot be replaced with a device that only produces accumulation data, unless the metrology procedure permits it.
- Jurisdictional reversion policies are defined in the NEM metrology procedure (clause 2.6).
- The COAG Energy Council proposes to maintain this arrangement.

## Issue 2: Reversion policy (2)

---

### **Stakeholder views**

- No stakeholder commented specifically on reversion policies.

### **Proposal**

- A reversion policy, whether in the Rules or determined by jurisdictions in the metrology procedure, will not be needed if:
  - there is a national minimum services specification; and
  - no ability to opt out of receiving a meter that meets the specification in new and replacement situations.

### **Question for discussion**

- Should consumers be able to revert from a meter that exceeds the minimum specification to one that meets it?

# Issue 3: Exclusivity arrangements

## Background

- The rule change request proposes that jurisdictions should be able to prescribe one or more, or a class of, Metering Coordinators exclusivity to coordinate metering services for some meter types.
- The proposal attempts to mitigate the risk that:
  - competition may not emerge in a particular market segment or region;  
or
  - consumers would be adversely affected by competition because the costs of basic metering are expected to increase.

## Stakeholder views

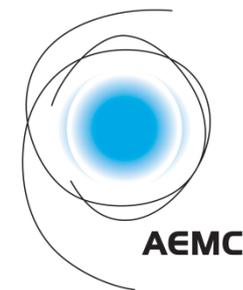
- Stakeholders presented mixed views on this proposal.
- Some supported exclusivity arrangements for some meter types (type 5, 6 and/or 7).

## Issue 3: Exclusivity arrangements (2)

---

### Proposal

- The new minimum functionality specification should apply to meters installed in all situations.
- Therefore, no exclusivity arrangements should apply to type 5 and 6 metering because these meter types cannot be installed.
- The concerns raised by stakeholders in support of the exclusivity proposal are somewhat addressed by the proposal that a distribution network business would take on the Metering Coordinator role on day 1 of the new Rules as part of its regulated business.
  - Prices for this service will continue to be regulated until the retailer chooses to appoint a different Metering Coordinator, the meter needed to be replaced or the consumer decided to upgrade it.



# Session 3

## Transitional arrangements for Victoria



# Background

---

- In 2006 the Victorian Government mandated that distribution network businesses in Victoria install and maintain smart meters in all residential and small business premises.
- The mandate was given effect through a number of Orders in Council, including the *AMI Cost Recovery Order*, which sets out how a distribution network business's metering fees and charges are to be calculated.
- Smart metering services remain regulated under the *AMI Cost Recovery Order* until 31 December 2015.
- After this date, charges levied by Victorian distribution network businesses for AMI meters and services will be subject to Chapter 6 of the NER. This coincides with the next regulatory control period for Victoria.

# Victoria's jurisdictional derogation

- In 2009 the AEMC made a rule to vary the application of the NER in Victoria to give effect to the mandate.
- In November 2013 the AEMC extended the operation of the jurisdictional derogation until the earlier of:
  - 31 December 2016; or
  - the commencement in Victoria of:
    - a framework for competition in metering and related services for small customers; and
    - regulatory arrangements that provide for an orderly transfer of the existing derogation to the regulation of metering installations in the NER.

## Victoria's jurisdictional derogation (2)

---

- The Commission deemed this decision to be in the long term interests of consumers because:
  - specific arrangements would have needed to be established for the period between the original derogation expiry (31 December 2013) and the start of a national framework for competition;
  - the costs of doing this were likely to outweigh the benefits, and may have affected the development of a national framework; and
  - the benefits of allowing other parties to provide metering and related services to small consumers in Victoria are likely to be low until a national framework for competition is established.

# The COAG Energy Council's proposals

- The local distribution network business would become the initial Metering Coordinator for the smart meters it has deployed under the AMI program.
- It may continue in this role to the exclusion of other parties for a defined period, which may be established by the Victorian government through a jurisdictional instrument.
- It may continue to provide metering services in accordance with the Victorian mandate until the national framework applies.
- Upon expiry of the exclusivity period, the regulated exit fee would apply to allow another party to subsequently replace a meter installed under mandate.
- The Victorian Government may determine that its current smart meter functionality specification will continue to apply.

Two other issues are raised by these proposals: Ring fencing arrangements and access to services.

# Issue 1: Exclusivity period

## Stakeholder views

- No objections to the proposal that Victorian distribution network businesses would become the initial Metering Coordinator.
- Mixed views on whether the distribution network business should be able to continue in this role to the exclusion of other parties for a defined period once the new rules commence.
- Those that supported the proposal were of the view that:
  - this would allow the Victorian government to manage the timing of the transition;
  - this would ensure the network and consumer benefits of the rollout are realised; and
  - the Victorian Government, not the AEMC, should decide the length of the exclusivity period.

# Issue 1: Exclusivity period (2)

---

## Proposal

- The local distribution network business will become the initial Metering Coordinator for the smart meters it has deployed under the AMI program.
- No exclusivity arrangements should exist for Victorian distribution network businesses beyond the commencement of the national arrangements.
  - The conditions set out by the AEMC regarding the expiry of the Victorian derogation would be satisfied when the new Rules for the national competitive framework commence (1 July 2016).
  - The adoption of the national framework will help realise the benefits of the investment already made in smart meters in Victoria, while unlocking the benefits of consumer choice and competition for services enabled by smart meters.

## Issue 2: Recovery of residual AMI costs

### Background

- The *AMI Cost Recovery Order* allows a Victorian distribution network business to ask the AER to determine an exit fee where a retailer takes over as Responsible Person for a metering installation.
- The Order sets out the principles the AER must have regard to in making an exit fee determination. This provision applies until 31 December 2020.

### Stakeholder views

- Those stakeholders that commented on the issue were of the view that the exit fee should include the cost of:
  - a decision to appoint a different Metering Coordinator; and
  - the distribution network business having to acquire network services it currently has exclusive access to, and any lost benefits imposed on other users.

## Issue 2: Recovery of residual AMI costs (2)

---

### Proposal

- The exit fee provisions outlined in the *AMI Cost Recovery Order* should continue to apply until they expire on 31 December 2020.
- An exit fee would be payable when a new Metering Coordinator replaces the distribution network business and replaces or upgrades the AMI meter.
- The AER will need to determine how to recover any residual costs from 1 January 2021 through the distribution regulatory determination process.

### Question for discussion

- How much, if anything, will still need to be recovered by the Victorian distribution network businesses for AMI after 2020?

## Issue 3: Minimum functionality specification

---

### Background

- The rule change request proposes that the Victorian government should be able to decide whether to adopt the national specification or continue to apply its current specification.

### Stakeholder views

- Some stakeholders proposed that the Victorian specification should apply unless the national specification is of an equal or higher functionality.

### Proposal

- The Victorian specification should apply for the remaining period as set out in the *AMI Specifications Order* (31 December 2016). From this point, the national specification would apply.

# Issue 4: Ring fencing arrangements

---

## Background

- The rule change request did not propose specific ring fencing arrangements for a Victorian distribution network business seeking to (or required to on day 1) take on the Metering Coordinator role.
- The views of stakeholders and options for ring fencing of Victorian distribution network businesses are similar to those proposed for other jurisdictions, ie:
  - Generally, distribution network businesses were of the view that no additional ring fencing obligations should apply because this would increase distribution costs.
  - Most other stakeholders were of the view that ring fencing is required to support competitive neutrality in the market for metering services.

## Issue 4: Ring fencing arrangements (2)

### Proposal

- Victorian distribution network businesses should be subject to the same obligations as other jurisdictions.
- There was general agreement for the proposed ring fencing arrangements presented to stakeholders at the workshop on 24 September 2014:
  - Where the metering service is unregulated, the distribution network business must be ring fenced from its Metering Coordinator, Metering Provider and Metering Data Provider.
  - Where the metering service is regulated and the distribution network business is still the Metering Coordinator for existing meters, no additional ring fencing obligations will apply.
- The NER mandates that smart metering services in Victoria be classified as an alternative control service in the 2016-2020 regulatory period, so the additional ring fencing obligations would not apply until 2021.

## Issue 5: Access to smart meter services

---

### Background

- At the workshop on 24 September 2014, we discussed whether there is a need for regulation to constrain a Metering Coordinator's ability to exert market power when selling access to services enabled by smart meters.
- Victorian distribution network businesses are in a different situation to those in other NEM jurisdictions because they already have exclusive access to network services through their AMI.
- This raises the question of whether they should have to pay for access to those services if/when another Metering Coordinator is engaged at that site, and whether consumers will be worse off if this is the case.
  - Various cost benefit analyses for the AMI program assumed that networks would continue to have access to these services, and that a reasonable proportion of the benefits would come from this source.

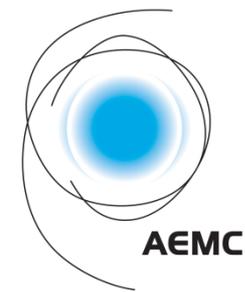
## Issue 5: Access to smart meter services (2)

### Stakeholder views

- Some stakeholders indicated that the benefits of AMI are yet to be seen, and that distribution network businesses should be given the opportunity to realise these benefits.
- Another proposed that the exit fee should include the incremental costs of the distribution network business acquiring access to services it previously had exclusive access to.

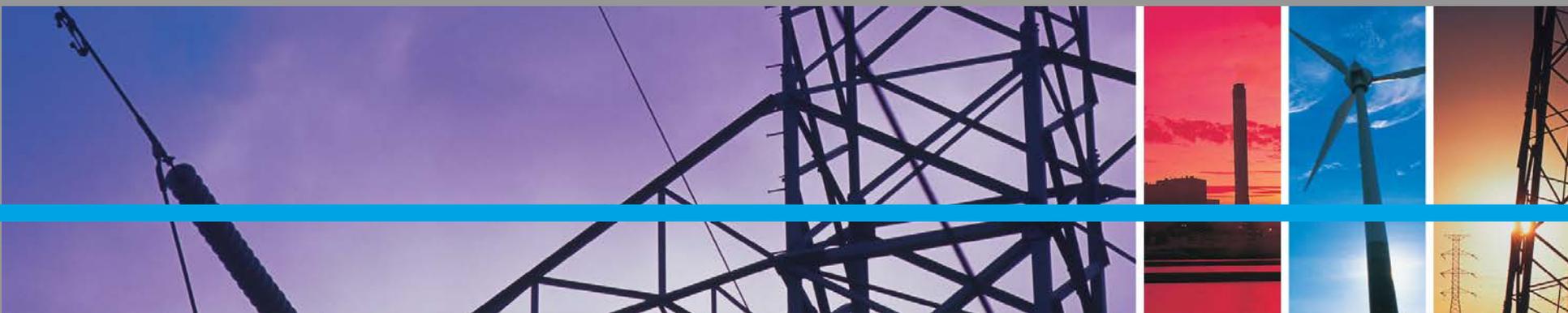
### Proposal

- It is our initial view that the arrangements for Victorian distribution network businesses to access the services enabled by smart meters should be no different to those in other jurisdictions.
  - We are still working on an approach for access regulation, and whether arrangements for Victoria will need to be different.

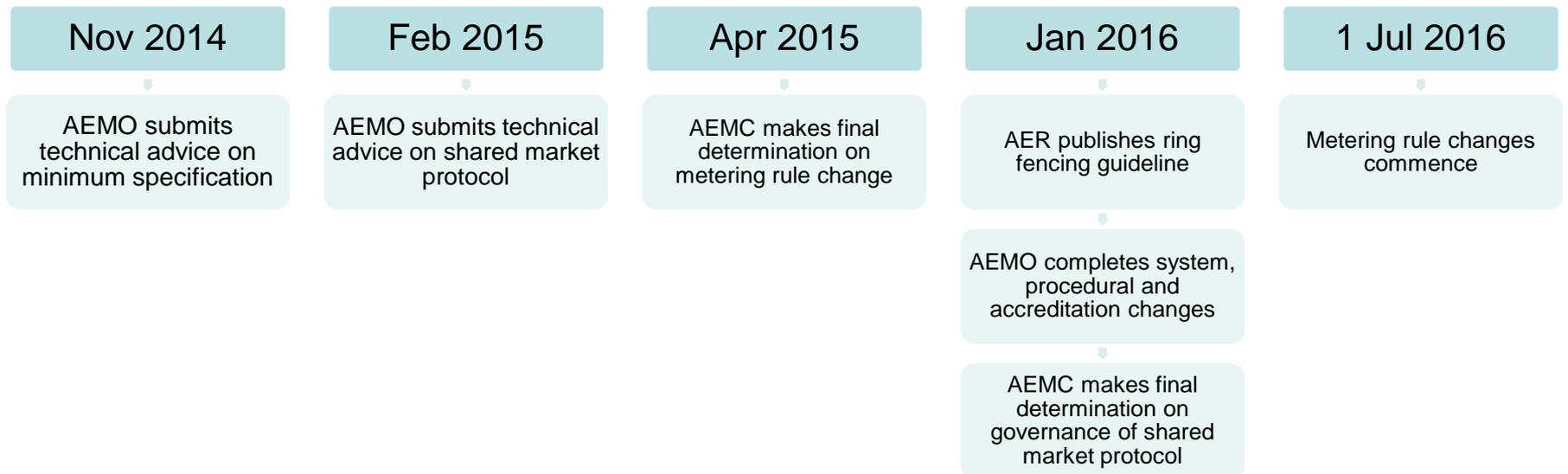


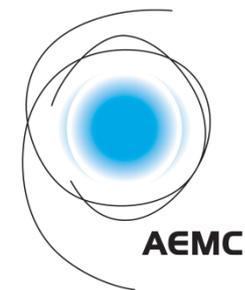
# Session 4

## Implementation



# Timeframes and requirements for implementation





# Attachments



# 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 – Overview of proposed arrangements	24 September 2014 Sydney
Workshop 5 – Transitional arrangements for Victoria, governance of the minimum functionality specification/ jurisdictional arrangements and requirements for implementation.	9 October 2014 Melbourne
Publication of draft determination and draft rule	December 2014
Public forum on draft determination and draft rule	January 2015
Close of submissions to draft	February 2015
Publication of final rule and final determination	April 2015

# Core elements of the rule change

## Metering Coordinator (MC) role

Independent MC

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

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

## 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)

## 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

## 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

Procedures and guidelines – MSATS, B2B and IEC arrangements

## Implementation arrangements

Requirements for implementation