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Dear Dr Tamblyn

### **Victoria's proposed derogation from the Rules for Advanced Metering Infrastructure (AMI) Deployment**

EnergyAustralia welcomes the opportunity to comment on the derogation from the Rules proposed by the Victorian Minister for Energy and Resources, *'Rule change proposal (Jurisdictional Derogation) Advanced Metering Infrastructure Rollout'*, on which consultation commenced on 20 December 2007.

EnergyAustralia recognises the proposal is an important element in the Victorian government's energy policy. EnergyAustralia supports the view that network exclusivity for an AMI rollout is a more efficient and practical approach.

EnergyAustralia's principal concern is that the Victorian government's AMI program and mandated timeline, enacted via 2007 regulations, could result in fragmented national market rules and business systems for smart metering, due to the likelihood Victorian and National smart metering requirements will diverge. In this event, the result would be significantly higher costs for industry and consumers.

The divergent regulatory arrangements and risk of additional costs could be avoided by aligning the Victorian AMI program with the Ministerial Council for Energy (MCE) smart metering process. A key development since the Victorian derogation was proposed in August 2007, has been the establishment of the MCE technical working group (TWG) to develop, among other things, a Rule change proposal to support smart metering.

EnergyAustralia considers this TWG process could provide the most appropriate framework within which to amend the current Rule relating to metering contestability provided that it proceeds on a timely basis. To this end, EnergyAustralia is participating in an industry-led taskforce under the auspices of the Energy Networks Association. A coherent package of Rule changes necessary to support smart metering nationally, formulated with the benefit of properly informed national processes, would address the "rail-gauge" issue and also be underpinned by a detailed analysis of the costs and benefits of different smart metering deployment scenarios.

EnergyAustralia also considers a national rule change approach is consistent with previous AEMC statements that the Commission would not consider Rule change proposals regarding metering policy and contestability pending expected MCE decisions on these matters.



In addition to EnergyAustralia's preference for a national rule change process there are several key concerns held regarding the derogation application:

- Although this is an issue not directly related to the Victorian application, it should be recognised that there is a significant risk the Victorian and national specifications for smart metering will not be identical. Even small discrepancies in the detailed specification can have profound effects on the design, performance and the costs and benefits of the SMIS. Smart meter functionality and design is a complex issue with very high technology risks. I am informed that the Victorian program office intends to involve non-Victorian players in the early design phases. However, it does need to be recognised that other jurisdictions have substantial experience which would best be tapped under a national process.
- An important issue in the overall design of the smart metering information systems (SMIS) is the different models for the detailed roles of each participant in the system. An effective SMIS needs to specify complex, time sensitive, and service-critical business processes and interactions between multiple parties including: end users; the AMI system operator/Meter Data Agents (MDAs); market participants (LNSP and FRMP); and the market operator (NEMMCO). The SMIS consists of much more than the smart meter. The SMIS is also more than the system managed directly by each AMI system operator. The development and operation of a SMIS requires new NEM business procedures operated by NEMMCO and new Rules. This point is now widely recognised by the industry. Should the Victorian functional specification lead to SMIS fragmentation in the market, then these business procedures and Rules will add complexity and higher costs.
- While cost recovery arrangements for the LNSP for investment in smart meters are already in place for Victoria, no such arrangements are in place nationally. EnergyAustralia is especially concerned that the cost of designing and implementing the NEMMCO components of the Victorian SMIS may be recovered from market fees applied to all retailers, including EnergyAustralia's retail business. Even if Victorian NEMMCO-related SMIS costs are fully ring-fenced, the risk of a cost or performance penalty remains, due to systems fragmentation.

EnergyAustralia understands the importance of the Victorian government's advanced metering infrastructure (AMI) program. We support the policy decision for an ownership framework which provides Victorian distribution businesses with greater investment certainty in the context of a prescribed timeline for the delivery of AMI to the Victorian mass market. However, the derogation does not provide a complete framework and in fact the proposed functional specifications pre-empt national framework decisions.

Therefore, in considering this proposed derogation the Commission may reflect on whether approval ahead of these National Rules will best meet the NEM objectives.

Please do not hesitate to contact Mr. Geoff Lilliss on (02) 4951 9411 should you wish to discuss any of the matters raised above.

Yours sincerely



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