



Australian Energy Market Commission

CONSULTATION PAPER

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

Rule Proponent

Minister for Energy and Resources (Victoria)

4 July 2013

RULE
CHANGE

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AEMC 2013, *Victorian Jurisdictional Derogation, Advanced Metering Infrastructure, Consultation Paper*, 4 July 2013, Sydney.

About the AEMC

The Council of Australian Governments (COAG), through its then Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. In June 2011, COAG established the Standing Council on Energy and Resources (SCER) to replace the MCE. The AEMC has two main functions. We make and amend the national electricity, gas and energy retail rules, and we conduct independent reviews of the energy markets for the SCER.

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1 Introduction

On 18 June 2013, the Honourable Nicholas Kotsiras MP, Minister for Energy and Resources (Victoria) (Proponent) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) seeking a jurisdictional derogation in relation to meters installed under the Advanced Metering Infrastructure (AMI) program in Victoria.

This Consultation Paper has been prepared to facilitate public consultation and to seek stakeholder submissions on the rule change request.

This paper:

- sets out a summary of, and a background to, the rule change request;
- identifies a number of questions and issues to facilitate the consultation on this rule change request; and
- outlines the process for making submissions.

2 Background

2.1 Extension of existing derogation

The Victorian Government has requested the AEMC to make changes to the National Electricity Rules (NER) by way of a jurisdictional derogation.¹ The requested rule change would extend for up to three years the effect of an existing derogation from some of the metering provisions in chapter 7 of the NER.

The existing derogation, which is set out in rule 9.9B, was put in place to allow the rollout of AMI in Victoria. It makes distribution businesses exclusively responsible for metering services for small Victorian electricity customers, meaning that retailers are prevented from providing these metering services. The existing derogation is due to expire on 31 December 2013.

If the derogation is not extended, the metering rules that are currently derogated away from in Victoria would come into force. That means that - nominally at least - retailers would be able to provide AMI metering services. For metering competition to occur in practice, a number of processes and systems would need to be developed.

Such processes and systems will be established as part of the national framework for competition in metering and related services for residential and small business customers – see section 2.3 below. However, the national framework will not be established before the current derogation expires.

The Victorian Government has stated its concern that, without a national framework in place, the introduction of metering competition in Victoria from January 2014 would have a number of detrimental impacts. These relate to possible loss of benefits from the AMI program, the lack of adequate customer protection arrangements and the costs of establishing specific Victorian arrangements to enable metering competition.

The Victorian Government is therefore seeking a new derogation that would preserve distribution business exclusivity for small customer metering services for another three years, or until national arrangements for competition in metering and associated services are implemented.

2.2 Victorian arrangements for AMI

The rule change request, which is available on our website, sets out further background. It describes the legislative framework for the mandatory rollout of AMI to Victorian small customers.² Victorian Orders in Council:

¹ A jurisdictional derogation modifies the application of the rules in a participating derogation. The AEMC can make a jurisdictional derogation at the request of the jurisdiction's Minister but must have regard to certain other matters, as well as the normal rule making test – see section 4.2.

² Minister for Energy and Resources (Victoria), *AMI Rule Change Request (Jurisdictional Derogation - Victoria)*, 18 June 2013, pp. 1-2.

- oblige the Victorian distribution businesses to replace existing meters with AMI metering by the end of 2013;
- provide for the regulation of cost recovery by distribution businesses with regard to the costs of providing AMI metering and services; and
- specify minimum functionality for AMI meters and associated service requirements.

Cost recovery for the AMI program would not be affected by the derogation's expiry, or its renewal. Clause 11.17.6 of the NER prevents AMI metering services from being regulated under a distribution determination for as long as they are regulated under the AMI Order in Council. Clause 11.17.6 is not subject to the existing derogation or to the rule change request.

2.3 Development of a national framework

The Standing Council on Energy and Resources (SCER) has agreed to progress a number of rule changes in response to the AEMC's Power of Choice review.³ The Victorian Government has stated its in-principle support.

The objective of the review, which concluded in November 2012, was to ensure that the community's demand for electricity services is met by the lowest cost combination of demand and supply side options. The review identified opportunities through better information, education, technology and flexible pricing options for consumers to make more informed choices about the way they use electricity. The review also identified the market conditions and incentives needed for network operators, retailers and other parties to maximise the potential of efficient demand side participation and to respond to consumers' choices.

The AEMC's recommendations included:

- introducing a framework in the NER that provides for competition in metering and related services for residential and small business consumers; and
- undertaking a review of the framework for open access and common communication standards needed to support contestability in demand side participation services enabled by smart meters.

We expect SCER to request rule changes in the second half of 2013 to give effect to these recommendations.

In undertaking this rule change, where possible we will take account of the national reforms to ensure there is a consistent and transparent approach.

³ AEMC, *Power of Choice Review - giving consumers options in the way they use electricity*, Final Report, 30 November 2012, Sydney.

3 Details of the rule change request

3.1 Effect of the rule change

The rule change request seeks to extend the effect of the existing derogation for a transitional period. The effect of making a new derogation consistent with the rule change request would be:

- Distribution businesses would continue to have the exclusive right to act as the responsible person for AMI meters for Victorian small customers.
- AMI meters would continue to be designated as type 5 or type 6 metering installations. In the absence of the derogation, AMI meters would be classified as type 4 metering installations as they can be remotely read. Retailers can elect to be the responsible person for type 4 meters.
- To make clear that retailers are not responsible for costs associated with AMI meters at their connection points, to the extent that these costs can be recovered by distribution businesses in accordance with the AMI cost recovery order.
- For the purposes of the rules, the metering data performance standards for market settlement for AMI meters would continue to be those that apply to manually read meters, despite these meters being remotely read. However, distribution businesses would be required to meet the Minimum AMI Service Levels Specification (Victoria) which governs the standards for daily remote collection of metering data.
- The derogation would continue until the rules are amended to provide a national framework for competition in metering and related services for residential and small business customers. If the rules are not so amended by 31 December 2016, the derogation would expire.

The rule change request provides a more detailed description of the proposed rule.⁴

3.2 Rationale for the rule change

The Victorian Government provides the rationale for the rule change in its request.⁵

The rule change request considers the costs, benefits and other impacts associated with two options:

⁴ Minister for Energy and Resources (Victoria), *AMI Rule Change Request (Jurisdictional Derogation - Victoria)*, 18 June 2013, pp. 4-5.

⁵ Minister for Energy and Resources (Victoria), *AMI Rule Change Request (Jurisdictional Derogation - Victoria)*, 18 June 2013, pp. 5-23.

- (A) not making the proposed rule, allowing retailers to elect to be responsible person for AMI meters, and therefore introducing competition in small customer metering services in Victoria; and
- (B) making the proposed rule, and therefore continuing distribution business exclusivity for AMI meters.

With regard to option A - introducing metering competition from January 2014 - the Victorian Government finds that:

- The incremental benefits, beyond what will be achieved by the AMI program, would be low.
- The costs would be significant, and would include inefficient duplication of an equivalent national process and a potential loss of benefits associated with the AMI program.
- Barriers to retail competition could be created if consumers have to change meters when they change retailers.
- There would be potential adverse impacts on reliability of supply.
- There would be a lack of adequate customer protection arrangements.
- Introducing metering competition at the same time as flexible pricing could create confusion for consumers.

The Victorian Government finds that option B preserves the benefits associated with Victoria's AMI program, and defers the costs of a consumer engagement plan to support the introduction of metering contestability.

Therefore, the Victorian Government argues that it is in the interests of Victorian consumers to extend the derogation until a national framework for competition in metering and related services for small electricity customers is established.

Supporting arguments from the rule change request are summarised below.

3.2.1 Effect of not making the rule

Benefits

The Victorian Government states that the incremental benefits of introducing competition in small customer metering services in Victoria are likely to be small because:

- most of the benefits associated with competitive metering services will be realised through the rollout of AMI in Victoria, regardless of which party is the responsible person for the meter; and

- the AMI meters provide a platform for retailers to offer innovative services to the market, regardless of which party is the responsible person.

Not making the rule would result in retailers being able to install new and replacement small customer meters. Competition may encourage retailers to provide metering services more cheaply than distribution businesses do, resulting in a benefit. However, in the case where the retailer replaces a working AMI meter, an exit fee would be payable to the distribution business, and the cost to society is likely to outweigh the benefit.

Costs

The Victorian Government identifies costs that would be incurred in developing Victorian specific processes and systems to accommodate contestable metering services. These would inefficiently duplicate costs that will be incurred in developing the national framework for competition in metering and associated services. In particular:

- Business-to-business 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.
- 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.
- Processes and systems would need to be introduced for responding to meter faults where the retailer is responsible for the meter.
- Customer protection arrangements would need to be changed to accommodate metering competition while protecting consumers' interests.

There is no certainty that Victorian-specific processes would be consistent with the national framework, in which case they would need to be modified again once that is implemented.

The Victorian Government finds that there could be a loss of benefits associated with the AMI program if:

- a retailer elects to be the responsible person for a Victorian small customer's metering installation; and
- processes and systems are not established to ensure that the retailer continues to provide the same level of service as the distribution businesses would have.

The potential loss of benefits relate to:

- Remote de-energisation and re-energisation. If retailers cannot provide this service, additional costs would be incurred.
- Network operational efficiency. 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.
- Flexible pricing. The introduction of metering competition at the same time as flexible pricing may compromise the ability of retailers and consumers to understand and benefit from innovative tariffs.

The Victorian Government finds that, in the absence of rules to prevent inefficient meter churn, metering competition may lead to consumers being required to change meters when they change retailers. There would be a net cost to society if the new meter enables no improvement in the associated services.

Other impacts

The Victorian Government identifies other potential adverse impacts of not making the rule:

- Barriers to retail competition may be created if consumers are required to change meters when they change retailers, depending on how metering charges are handled.
- Customer reliability may be affected if processes for handling meter faults between retailers and distributors are not established.
- There may be a lack of adequate customer protection arrangements. A consumer engagement program to support metering competition would be necessary.

Net incremental cost-benefit

The rule change request provides an indicative estimate of the costs and benefits associated with not making the rule.⁶ The Victorian Government notes that there is a high degree of uncertainty as to how participants would respond to the introduction of competition in metering services in the absence of a national framework. The estimate therefore provides an indication of the possible range of outcomes, rather than attempting a definitive quantification. The net incremental cost-benefit of not making the rule is estimated to be in the range of -\$5 to -\$93 million.

⁶ See: Minister for Energy and Resources (Victoria), *AMI Rule Change Request (Jurisdictional Derogation - Victoria)*, 18 June 2013, Table 1 for a summary of costs and benefits, and pp. 13-23 for supporting assumptions.

3.2.2 Effect of making the rule

Benefits

The Victorian Government finds that making the rule would:

- allow a customer engagement campaign to support the introduction of metering contestability to be deferred for up to three years;
- preserve the expected benefits of the AMI program in Victoria.

Other benefits would result from waiting to adopt the national framework for competition in metering services, rather than implementing Victorian-specific arrangements. Making the rule would:

- allow existing processes and systems to be continued until a national framework is implemented, avoiding inefficient and possibly inconsistent duplication of effort;
- avoid inefficient replacement of meters, with adoption of the proposed Metering Coordinator role as part of the national framework;
- allow Victorian participants to focus on the development of the national framework, rather than being distracted by the development of Victorian-specific arrangements; and
- allow the new national consumer protection arrangements and communications campaign, which are to be developed as part of the national framework, to be adopted in Victoria.

Making the rule would also allow consumers a longer period in which to understand the benefits of flexible pricing before metering contestability is introduced. Appropriate customer engagement is needed to avoid the risk of community alienation.

Costs

The Victorian Government identifies administrative costs associated with the rule change process.

Other impacts

The Victorian Government finds that making the rule would support retail competition as:

- consumers would not have to pay for a new meter when they change retailers;

- with the introduction of flexible pricing enabled by AMI meters from the latter half of 2013, retailers will have the potential to compete on more targeted product, service and price offerings, even without metering contestability.

The Victorian Government finds that making the rule would provide for competition in metering services as:

- competition would continue to exist for the provision of metering services to the distribution businesses; and
- competition would exist to provide value-added metering services facilitated by AMI, such as in-home displays.

The Victorian Government finds that making the rule would not have significant negative impacts on innovation. Metering contestability may promote innovation in investment in metering service in the long run. In the short run, however, retailers are not likely to provide meters with additional functionality or higher service levels than AMI meters already provide.

Net incremental cost-benefit

The Proponent estimates the net cost-benefit of making the rule to be in the range of -\$200,000 to \$500,000.

3.2.3 Rationale for requested duration of derogation

The rule change request provides a rationale for requesting a new derogation with a duration of up to three years, which may be summarised:

- The most efficient approach to introducing small customer metering contestability Victoria would be to adopt the national framework, which SCER has agreed to progress.
- It is uncertain when the national framework will be implemented. Although the AEMC proposed in its Power of Choice review that this occur by the end of 2014, it could reasonably be expected that this may not happen until some time in 2015.
- Given the uncertainty, it is proposed that the derogation be extended until the national framework for competition in metering and related services for residential and small business customers is implemented. In the unlikely event that the national framework is not implemented by the end of 2016, the derogation would expire.
- The end of 2016 is proposed for the alternative end date, rather than the end of 2015, to avoid the costs of seeking another derogation in the event that implementation of the national framework is delayed.

3.3 Proposed rule

Schedule 2 of the Proponent's rule change request sets out the proposed rule.⁷

⁷ Minister for Energy and Resources (Victoria), *AMI Rule Change Request (Jurisdictional Derogation - Victoria)*, 18 June 2013, pp. 29-30.

4 Assessment framework

4.1 National Electricity Objective

The Commission's assessment of this rule change request must consider whether the proposed rule promotes the National Electricity Objective (NEO) as set out under section 7 of the National Electricity Law (NEL):

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

- (a) price, quality, safety, reliability, and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”

In assessing the rule change request against the NEO, the AEMC will consider the likely long term costs and benefits of making the rule change compared to the counterfactual of not making the proposed change to the NER. We will also consider whether the proposed rule satisfies the rule making test in that it will, or is likely to, contribute to the achievement of the NEO.

We will assess the costs, benefits and efficiency impacts of the two options described in section 3.2 above:

- (A) not making the proposed rule, allowing retailers to elect to be responsible person for AMI meters, and therefore introducing competition in small customer metering services in Victoria; and
- (B) making the proposed rule, and therefore continuing distribution business exclusivity for AMI meters.

In assessing how the two options are likely to promote the efficient investment in, and efficient operation and use of, electricity services, the AEMC will take the following into consideration:

- the incremental benefits of introducing small customer metering competition in Victoria before a national framework is established;
- the likelihood of inefficient meter replacement if small customer metering competition is introduced in Victoria before a national framework is established;
- the costs of establishing Victorian-specific arrangements to enable small customer metering competition;
- the extent to which the benefits from the Victorian AMI program are preserved if distribution business exclusivity for AMI meters is continued;

- impacts on security and reliability of supply;
- impacts on retail competition;
- impacts on the uptake of flexible pricing by consumers;
- impacts on metering competition;
- impacts on innovation in metering and associated services; and
- impacts on consumer confidence and engagement, noting the potential impacts of having multiple arrangements in a relatively short space of time.

In assessing whether the proposed duration for the derogation is appropriate, the AEMC will consider:

- the likely timeframe for the establishment of the national framework for competition in metering and associated services; and
- whether a project to establish Victorian-specific arrangements could reasonably be justified in a shorter timeframe, taking into account costs, benefits and efficiency impacts.

4.2 Other considerations in making a jurisdictional derogation

Section 89 of the NEL requires the AEMC in making a jurisdictional derogation to have regard to whether:

- “(a) the derogation provides for the orderly transfer of the regulation of the electricity industry in a participating jurisdiction under jurisdictional electricity legislation to the regulation of that industry under the national electricity legislation; or
- (b) the derogation continues existing regulatory arrangements applying to the electricity industry in a participating jurisdiction and the Minister of the participating jurisdiction requesting the derogation has notified, in writing, the AEMC that he or she considers it necessary and appropriate that the existing regulatory arrangements continue; or
- (c) the derogation is necessary to exempt, on an ongoing basis, generating, transmission or distribution systems or other facilities owned, controlled or operated in the participating jurisdiction to which the derogation relates from complying with technical standards relating to connection to the national electricity system set out in the Rules because those systems or facilities, by reason of their design or construction, are unable to comply with those standards.”

The Victorian Minister for Energy and Resources has notified the AEMC in writing that he considers it necessary and appropriate that the existing regulatory arrangements continue with respect to metering services for Victorian residential and small business electricity customers.

5 Issues for consultation

In taking into consideration the assessment framework and potential requirements to implement the proposed rule change, we have identified a number of issues for consultation.

The issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request or this paper, including the proposed assessment framework.

5.1 Costs and benefits

The rule change request includes an estimate of the range of costs and benefits that might be expected from making the rule and not making the rule. The rule change request recognises the uncertainty involved in attempting such quantification, and provides the numbers as an indication of the possible range of outcomes.

On these estimates, making the derogation (even on worst case assumptions) is preferable to not making the derogation (even on best case assumptions), therefore supporting the Proponent's position that it is in the interest of Victorian consumers to make the rule change. We are interested in stakeholders' views on these estimates and the underlying assumptions.

We note that some of the costs and benefits identified in the rule change request depend on whether Victorian-specific arrangements are established.

The final determination for this rule change request is likely to be made at the end of this year. In the case that the rule change is not made, there will be a very short period between the determination and the expiry of the current derogation. This is likely create a period when there not adequate processes and systems in place to support small customer metering competition, which may lead to the loss of some of the benefits from the AMI program and the possibility of inefficient meter replacement. However, if Victorian-specific arrangements are established we expect that they would limit the loss of AMI program benefits and prevent inefficient meter replacement.

Question 1 Costs and benefits

- 1. Are the costs and benefits provided in Table 1 of the rule change request appropriate estimates of the range of possible outcomes?**
- 2. Are there other costs and benefits that should be considered?**
- 3. How would the performance of distribution businesses and retailers in installing and managing meters compare in a competitive environment?**
- 4. If Victorian-specific arrangements have to be developed because the rule is not made:**

- (a) Would such arrangements tend to limit the loss of benefits from the AMI program?
- (b) Are such arrangements likely to prevent inefficient meter replacement?

5.2 Efficiency impacts

The rule change request and the proposed assessment framework set out a number of efficiency impacts that we will consider in determining whether to make the derogation or not.

Question 2 Efficiency impacts

1. What are the likely impacts on:
 - (a) retail competition?
 - (b) the uptake of flexible pricing by consumers?
 - (c) competition in metering services?
 - (d) innovation in metering and metering services?
2. Are there processes and systems that could be implemented in Victoria to improve third party access to metering data and metering services, thereby encouraging innovation?
3. Are there other efficiency impacts that have not been considered?

5.3 Impacts on consumer confidence

If the derogation is not made, Victorian-specific arrangements will need to be made to support competition in small customer metering.

The Victorian Government has given in-principle support to progressing the national framework for competition in metering and associated services.

It is therefore possible that not making the derogation would result in Victorian consumers, retailers and distribution businesses needing to deal with three sets of arrangements within a short period of time: the current arrangements, Victorian-specific arrangements and the national framework, once that is implemented.

In addition, flexible pricing supported by AMI meters will be introduced from the latter half of 2013 in Victoria.

There are potential impacts on consumer understanding and confidence in the market of having multiple changes over a relatively short period of time. There would be costs

in effectively engaging with consumers to communicate the changes and maintain confidence in the market.

Question 3 Impacts on consumer confidence

1. **What impacts on consumer understanding and confidence would result from not making the derogation, given the additional amount of change that might create?**
2. **What would be the costs of effectively engaging with consumers to communicate the additional change and maintain confidence in the market?**
3. **Are there other impacts on consumer confidence that have not been considered?**

5.4 Duration of derogation

The rule change request proposes that the derogation should expire once the national framework for competition in metering and associated services is implemented, and otherwise after three years.

In assessing whether that duration is appropriate we propose to consider whether Victorian-specific arrangements could be justified in a shorter timeframe, taking into account costs, benefits and efficiency impacts.

Question 4 Duration of derogation

1. **Is it appropriate to link the duration of the derogation to the establishment of the national framework for competition in metering and associated services?**
2. **Is three years an appropriate duration in the event that the national framework is not established by that time?**
3. **Are there other considerations that should be taken into account?**

6 Lodging a Submission

The Commission has published a notice under section 95 of the NEL for this rule change proposal inviting written submission. Submissions are to be lodged online or by mail by 1 August 2013 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on rule change proposals.⁸ The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Stuart Slack on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code ["ERC0159"]. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within three business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: ERC0159.

Except in circumstances where the submission has been received electronically, upon receipt of the hard copy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

⁸ This guideline is available on the Commission's website.

Abbreviations

AEMC	Australian Energy Market Commission
AMI	Advanced Metering Infrastructure
Commission	See AEMC
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
SCER	Standing Council on Energy and Resources