11 March 2014

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Subject: EMO0028 Framework for Open Access and Common Communication Standards Review, Supplementary paper – regulatory framework

SA Power Networks welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) supplementary paper on the regulatory framework for access to smart meter services issued on the 24th February 2014.

Smart meters deliver a range of benefits to consumers, some of which arise from more effectively monitoring and managing the operation of the electricity network. Examples include:

- The ability to control load such as hot water heating. In South Australia, some 300,000 customers have a controlled-load hot water service today. All customers benefit from the associated reduction in network load at peak times, which improves utilisation of network assets and reduces network augmentation costs.
- The use of smart meter power quality data to facilitate the ongoing integration of intermittent renewable energy such as solar into the grid while maintaining power quality standards.
- The ability to detect remotely when a customer is off supply, or to remotely check the quality of supply when a customer calls in to report a problem, which can reduce unnecessary field crew visits to premises and enable crews to restore service in a more timely manner when the network is damaged due to a fault or storm.

These opportunities for improving the management of the network arise when networks have access to a critical mass of smart meters that provide network functions. If the community is to realise the full benefit from a future investment in smart meters, the commercial and regulatory framework for access to metering services must ensure two things:

- Networks must have certainty that network services will be made available, if they are to invest in the backoffice systems and processes to make use of them.
- Where fees for access apply, the framework must ensure efficient pricing, otherwise the available benefit to the community is eroded and/or the network may not be able to build a case to make the investment at all.

Certainty of access

In the proposed market model, networks and others must rely on the metering coordinator (MC) to provide meter services, but do not appoint the MC. The MC is appointed by the financially responsible market participant (FRMP) or customer and can change at any time.

SA Power Networks considers that the following are pre-requisites for a working framework for access under such an arrangement:

- Well-defined common standards for access to services
- A reasonable minimum set of basic services, including basic network services
- Provisions for non-reversion of standard services at a premises when the MC changes

Networks require a level of certainty to support investment in systems and processes to manage critical infrastructure. This would be difficult in an environment where networks must rely on ad-hoc arrangements with a range of service providers that can alter over time. While it will be in a MC's interest to offer network services if there is an opportunity to generate additional revenue, it is not their core business under the proposed market arrangements, which is to provide metering services to FRMPs. In the absence of adequate standards and a minimum service specification, it is likely that MCs will vary in their willingness and ability to offer network services according to their individual business models, commercial arrangements with their primary customers (FRMPs) and technology choices.

In the early stages of market development it is unlikely that any single MC will have the critical mass of meters required to deliver network benefits, particularly where there are several MCs operating in a particular jurisdiction. In such a market, networks will only be able to make use of network services when they have certainty that the same services will be offered in a consistent way by all providers. Furthermore, if networks must negotiate fees for access, as the AEMC is proposing, then there would need to be some certainty of price stability over time.

Without certainty of access to smart meter services, networks will be encouraged to invest in alternative solutions to deliver some of the desired improvements in the monitoring and management of networks. Conversely, without certainty of revenue for network services (whether through metering charges or alternatives), MCs may elect not to install meters with network functions. Either outcome would be a lost opportunity, and result in higher cost to the community in the long term.

Access fees

In its supplementary paper, the AEMC states[1]:

> *"On whether network businesses should have access to a defined level of 'basic' smart meter functions free of charge, our draft finding is that:*
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> - *network businesses should negotiate and pay for access to smart meter functionality on a commercial basis, in the same way as other market participants. This approach places commercial incentives on network businesses to negotiate a level of access to the number of smart meters and types of services available that is economically efficient."*

The AEMC's supplementary paper goes on to identify a number of scenarios in which its proposed approach could result in inefficient pricing and higher overall cost to the community, primarily as a result of the imbalance of power in commercial negotiations between the MC, who enjoys an effective monopoly on the provision of metering services, and any accredited party seeking access to meter functions other than the FRMP, since it is only the FRMP that can choose a different MC if the price offered is not reasonable.

[1] AEMC *Supplementary report- Regulatory framework: Framework for open access and common communication standards,* 24 February 2014, pp.3-4

In our previous submission, SA Power Networks noted that when a customer replaces a meter with one that is capable of remote communication there are some immediate benefits in terms of safety and efficiency in the network than can be enabled at low marginal cost. We have suggested that an efficient way to ensure that these benefits are realised for the community would be to incorporate such basic functions as a standard part of the metering service paid for by the customer.

We request that the AEMC correct a misquoting of SA Power Networks' position made in the supplementary paper. The AEMC states[2]:

> *"SA Power Networks (SAPN) acknowledge that networks should pay for access to smart meter functions on the basis of the benefits that accrue to the broader customer base, not individual customers. Hence the cost to provide them should be recovered through metering charges."*

This does not correctly reflect our position. What we stated[3] was:

> *"Some Working Group members have argued that networks should pay a fee to access any network-related functions in the meter, on the basis that the network benefits that arise from these functions accrue to the broader customer base, not the individual customer, and hence the cost to provide them should properly be recovered through network charges, not metering charges.*
>
> *"While we accept the principle that underlies this argument, we have proposed above that a standard set of network functions must be provided for every smart meter as 'basic functions,' and made available to the network business at no charge (that is, the cost to provide them must be fully recovered within the metering charge)."*

We have proposed this approach because *the incremental cost of providing certain basic functions is very low* and, in the proposed market model, *there is no competition between MCs in the provision of network services*. The cost and risk associated with relying upon the proposed market to deliver these services would thus appear unwise and unwarranted.

In our proposed approach, MCs would have certainty of cost recovery for the provision of these services, networks would have certainty of service availability as the market develops, and competition between MCs would ensure efficient pricing without the need for price regulation. The provision of such basic network services 'free of charge' would not mean that the MC is disadvantaged by providing the services, since the customer is fully funding the provision of the services through their metering charge – as is the case today with the provision of metrology data via the B2B hub. As all MCs would be required to provide the same basic services, no MC would be at a competitive disadvantage.

We have suggested that for non-basic network services, i.e. *those that would result in a material increase in the metering charge* if included as standard, the network could pay the MC a fee for access as the AEMC proposes, however we remain concerned that MCs have insufficient incentive under the proposed market model to price these efficiently.

Other Working Group participants have proposed that networks pay a standard fee for access to a defined set of basic network services, and that this price should be fixed through regulation to provide certainty of cost for networks, and certainty of revenue recovery for MCs. SA Power Networks agrees that such an arrangement, with appropriate price regulation, would also address our primary concern, which is that both networks and MCs have the confidence and incentive to engage, in particular during the early stages of market development when meter penetration is low, so that network benefits are realised as a critical mass of smart meters develops.

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[2] AEMC *Supplementary report- Regulatory framework: Framework for open access and common communication standards,* 24 February 2014, p20

[3] SA Power Networks submission to the AEMC *Framework for Open Access and Common Communication Standards Review, Draft Report,* 30 January 2014

Competition review

Recognising a number of possible adverse outcomes from its proposed unregulated market, AEMC has proposed that:

- *it is prudent for a competition review to be undertaken at an appropriate point in time to reconsider these issues once a metering and data contestability framework is in place and the market has matured.*

SA Power Networks supports the proposed competition review, but notes that a competition review once the market has developed would be an opportunity to address inefficient pricing, but could not reverse inefficient investments already made, or efficient investments failed to be made, in meters, systems or network equipment. As an example, in our previous submission we noted the finding of the New Zealand Parliamentary Commissioner for the Environment in its 2013 report on the outcomes of the unregulated rollout in New Zealand[4], that:

> *"Regulatory intervention should not be done lightly and this is an area of rapid technological change. But the opportunity for delivering benefits to the householder and the environment at a small increase in the cost of the meters has been lost; retrofitting additional features is likely to be much more expensive."*

Regulation of access and other considerations

SA Power Networks considers that:

- Network stability, customer safety and customer privacy must be primary considerations in establishing the framework and in regulating rights of access. The goals of enabling a market for demand side services and competition in metering must be subordinate to the overarching goals of the National Electricity Objective (NEO).
- Network operators' ability to operate the network safely and efficiently must not be compromised. In practice this will mean that the right to access specific functions such as disconnect / reconnect and load control must be properly controlled, and the technical framework that is developed for the common market gateway must support robust authentication for service requests to prevent unauthorised operation of meter functions.
- The need for regulation of access goes beyond simple accreditation; a party that allows, through inadequate security or error, the unauthorised disconnection of customers from the network, or unauthorised switching of load, has the potential to cause material harm to the community and must be held properly accountable.
- Existing customer benefits, in particular the load control services that networks including SA Power Networks rely on today to balance load, must be preserved; if a meter that has a load control function is replaced, the incoming MC must provide the same or an equivalent service at the premises, and customers must not pay again for a benefit they have previously fully funded.
- In its focus on a framework to establish a market for metering services, the AEMC must not overlook the non-commercial benefits that a community investment in smart meters can offer. For example, opportunities for consumer safety benefits from smart meters such as loss of neutral detection must not be lost.

[4] *Update Report* on *Smart Electricity Meters: How households and the environment can benefit,* New Zealand Parliamentary Commissioner for the Environment, June 2013. This report focused in particular on the lack of home-area-network functions in the meters that had been deployed, but the same considerations apply to other load control and network functions.

Summary

Widespread deployment of smart meters provides an opportunity to deliver a range of benefits to electricity customers and the community. Some elements of these benefits, particularly the network benefits, are associated with a very low proportion of the overall cost but have the potential to deliver significant value to the community once a critical mass of meters is deployed with access to these functions readily available.

SA Power Networks considers that reliance on a pure market model places these benefits at risk.

By regulating minimum standards, access and pricing for a subset of services within that competitive environment, AEMC could provide surety of benefits realisation at low cost and without detracting from competition in meter provision.

Should any of our comments be unclear, or the AEMC require further clarification, please contact Mark Vincent, Manager Network Investment Strategy, on (08) 8404 5284.

Yours sincerely,

Sean Kelly

Sean Kelly

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