Minister for Energy and Resources

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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce,

CONTINUATION OF CERTAIN VICTORIAN ARRANGEMENTS FOR ELECTRICITY METERING

I am writing to notify the Australian Energy Market Commission (AEMC) that, in accordance with section 89(b) of the *National Electricity Law*, the Victorian Government considers it necessary and appropriate that certain arrangements with respect to metering services for Victorian residential and small business electricity customers continue following the expiry of an existing derogation on 31 December 2013.

The existing derogation, which is set out under rule 9.9B of the National Electricity Rules, establishes the Local Network Service Provider as the exclusive responsible person for metering services for small Victorian electricity customers and for the Advanced Metering Infrastructure (AMI) program.

The Victorian Government supports the Standing Council on Energy and Resources' response to the AEMC's Power of Choice review to submit a rule change proposal to provide a national framework for competition in metering and related services for residential and small business customers. However, it is concerned that, if there is not an orderly transition to a competitive metering market, the benefits associated with the Victorian rollout of AMI meters will be compromised.

In particular, the Government considers, without a national framework in place, the introduction of metering competition from January 2014 will have a number of detrimental impacts including:

- introducing significant changes to meter services that are not supported by properly developed business to business processes;
- increased barriers to retail competition and switching associated with customers having to potentially change meters when they change retailers;
- the need to devote resources to developing Victorian specific processes and systems to accommodate contestable metering services when an equivalent national process is underway on a different timeline;

- potential risks to safety of customers during remote re-energisation and de-energisation processes; and
- adverse impacts on customer reliability where there are meter faults.

The Government is also concerned that the introduction of metering competition is likely to create confusion for customers at a time when other important changes such as flexible pricing are also being introduced. Further, the Government is concerned that the introduction of metering competition from January 2014 will not be supported by adequate customer protection arrangements.

As such, to protect the interests of Victorian consumers during the transition to a national framework for competitive metering and related services, the Government proposes that the derogation be extended so that the Local Network Service Provider remains the exclusive responsible person for metering services for small Victorian electricity customers with meters installed under the AMI program.

The derogation proposal provides that the derogation be extended to the earlier of:

- the implementation of national arrangements for smart metering consistent with the AEMC's Power of Choice recommendations; and
- 31 December 2016.

A copy of the derogation proposal is attached to this letter.

Should you have any queries in relation to the proposed derogation, please do not hesitate to contact David Waterson, Director, Advanced Metering Infrastructure, Energy Sector Development Division, Department of State Development, Business and Innovation on (03) 9658 4165 or via email at david.waterson@dpi.vic.gov.au.

Yours sincerely

Hon. Nicholas Kotsiras MP
Minister for Energy and Resources

19 / 6 / 2013

Encl.

AMI Rule Change Request (Jurisdictional Derogation – Victoria)

1. Introduction

1.1 Request for Rule change

In accordance with section 91 of the *National Electricity Law* (the NEL), the Victorian Government requests the Australian Energy Market Commission (AEMC) to make changes to the National Electricity Rules (the Rules) by way of a jurisdictional derogation in connection with meters rolled out under the Advanced Metering Infrastructure (AMI) program in Victoria.

As required by section 91(3) of the NEL, the Minister for Energy and Resources has consulted with the Ministers of the other participating jurisdictions before lodging this submission with the AEMC. The Victorian Government has also consulted extensively with the AMI Ministerial Advisory Council and AMI Regulatory Working Group in developing the Rule change request.

Name of Proponent Hon. Nicholas Kotsiras MP, Minister for Energy and Resources (Victoria)

Address of Proponent 1 Spring Street, Melbourne, Victoria 3000

1.2 Background

In 2006, the Victorian Government announced a mandatory rollout of AMI to small customers (that is, customers that consume less than 160 MWh of electricity per year) within Victoria. The rollout of AMI meters commenced on 1 July 2009.

To give legislative effect to the announcement, Orders in Council (the AMI Orders in Council[1]) were made under the *Electricity Industry Act 2000* (EIA) to:

- impose obligations on the five Victorian electricity Local Network Service Providers[2] to replace existing customer metering with AMI metering by the end of 2013;
- provide for the regulation of cost recovery by the Local Network Service Providers in respect of the costs associated with the AMI roll-out including metering services; and
- specify minimum Victorian functionality and associated service requirements for AMI meters installed under the program.

Under chapter 7 of the Rules, Local Network Service Providers are exclusively responsible for metering services for small customers (metering installation types 5, 6 and 7). However, the Market Participant[3] is the responsible person for remotely read interval meters, including AMI meters, unless the retailer requests the Local Network Service Provider to assume that role in respect of the relevant metering installation.

[1] The AMI Orders in Council comprise: the AMI Cost Recovery Order (first published in Special Gazette No. S200 on 28 August 2007 and as subsequently amended) and the AMI Specifications Order (first published in Special Gazette No. S286 on 12 November 2007 and as subsequently amended).
[2] The five Victorian electricity Local Network Service Providers are CitiPower, Jemena, Powercor, SP AusNet and United Energy Distribution.
[3] For these purposes, the Market Participant is the retailer for the relevant connection point.

In August 2007, the Victorian Government sought a derogation for a transitional period so that Local Network Service Providers could act as the responsible person in respect of the AMI meters rolled out to small customers consistent with the framework established under the EIA. The Victorian Government was of the view that the alternative of the retailers would result in:

- an inefficient rollout with potential for costly multiple duplications of infrastructure;
- possible stranding of infrastructure when customers transfer between retailers;
- uncertainty as to how or if the network benefits of AMI could be achieved; and
- act as an impediment to customer transfer between retailers, adversely affecting the overall retail electricity market.

Additionally it was proposed that the Local Network Service Provider would be able to nominate the agent to be used by NEMMCO (now AEMO) to collect data from the relevant metering installations during the period of the derogation. In the absence of the derogation, the Market Participant would nominate the agent.

In January 2009 the AEMC made the derogation, consistent with the Ministerial Council on Energy's 13 June 2008 Statement of Policy Principles in relation to the accelerated rollout of smart meters[4]. The current derogation, which is due to expire on 31 December 2013, is set out under rule 9.9B of the Rules and is replicated in Schedule 1 to this submission.

1.3 Local Network Service Provider exclusivity

In this submission, the Victorian Government is seeking exclusivity, by way of a jurisdictional derogation, for a transitional period for Local Network Service Providers to act as the responsible person in respect of the AMI meters rolled out to small customers consistent with the framework established under the EIA. The detail of the derogation is set out in section 2.

In its Power of Choice review, the AEMC recommended that a national framework be introduced into the Rules "for competition in metering and data services for residential and small business consumers"[5]. The AEMC's Implementation Plan recommended that the national framework be introduced by the end of 2014.

The Victorian Government supports in principle the introduction of a national framework for competition for metering services for small electricity customers consistent with the Standing Council on Energy and Resources (SCER) support for the AEMC's Power of Choice recommendations. However, in the absence of such a framework, the Victorian Government believes that the alternative of the retailers acting as the responsible person will result in inefficient business to business (B2B) transactions, inefficient churn of meters, inefficient development of Victorian-specific processes and systems to accommodate contestable metering services, an adverse impact on competition in the retail electricity market, an adverse impact on customers' reliability of supply if there is a meter fault, and a lack of appropriate protections for consumers.

[4] See http://www.aemc.gov.au/electricity/national-electricity-rules/mce-statements-of-policy-principles.html
[5] AEMC, *Power of choice review – giving consumers options in the way they use electricity, Final Report*, 30 November 2012, Sydney, p 68. Available at http://www.aemc.gov.au/market-reviews/open/power-of-choice-update-page.html

In addition, the Victorian Government believes there will be an increased risk that the benefits associated with the AMI rollout will not be realised, particularly more efficient investment in network infrastructure and more efficient use of electricity with the introduction of innovative tariffs; network operational efficiencies; and remote re-energisation and remote de-energisation.

The jurisdictional derogation is sought until the Rules are amended to provide a national framework for competition in metering and related services for small electricity customers.

Sections 3 and 4 set out the reasons for the derogation in more detail.

1.4 National Electricity Market Objective

The derogation will contribute to the National Electricity Market by:

- promoting efficient investment in the electricity system and the efficient use of electricity through realising the benefits of innovative tariffs enabled through the AMI rollout;
- promoting efficient investment in meters through minimising the risk of the newly installed AMI meters being replaced when a consumer changes retailer (meter churn);
- promoting the security and reliability of the electricity supply through the network operational efficiency benefits enabled through the AMI rollout;
- not adversely impacting the safety of the supply of the electricity and the safety of the national electricity system while realising the benefits of remote de-energisation and remote re-energisation enabled through the AMI rollout; and
- promoting the long term interests of customers by enhancing the competitiveness of the retail electricity market and by maximising net benefits to customers.

Section 4 sets out in more detail how the derogation will promote the National Electricity Market Objective.

1.5 Content of submission

The remainder of this submission (in accordance with section 92 of the NEL) contains:

- A description of the proposed Rule (to take the form of a jurisdictional derogation to Chapter 7 of the Rules);
- A statement of the issues concerning the existing Rules that are to be addressed by the proposed derogation and an explanation of how the derogation addresses these issues;
- An explanation of how the derogation would or would be likely to contribute to the achievement of the National Electricity Market Objective;
- An explanation of the expected benefits and costs of the proposed change and the potential impacts of the change on those likely to be affected; and
- A discussion of the matters to which the AEMC is required to have regard in making a jurisdictional derogation and the date on which the derogation, if made, will expire.

As noted above, the current derogation that will expire on 31 December 2013 is set out in Schedule 1 of this submission. Schedule 2 sets out the proposed drafting for the derogation requested in this submission.

2. Description of Proposed Rule

The object of the proposed derogation to the Rules is to extend, for a transitional period, the effect of the current Derogation. That is, to continue the Local Network Service Provider as the exclusive responsible person for relevant metering installations and the designation of AMI meters as metering installations type 5 or type 6 (as the case may be).

For the purpose of these designations, and consistent with the current derogation, it is proposed that the current definition of relevant metering installations[6] will be retained (with minor changes to clarify the intent of the definition). That is, a metering installation for a customer's connection point in Victoria that consumes less than 160 MWh per annum of energy and which:

- was installed prior to 1 July 2009, unless the retailer was the responsible person for the metering installation at that date; or
- was installed on or after 1 July 2009, unless the retailer is the responsible person for the metering installation which has been installed in accordance with the ordinary replacement cycle of the retailer.

A relevant metering installation does not include a type 1 or type 2 metering installation or a metering installation located at a high voltage connection point.

It is proposed that the exclusivity period would commence on the expiry of the current derogation, which is set out under rule 9.9B of the Rules.

The Local Network Service Provider will be given the exclusive right to act as the responsible person for relevant metering installations until the Rules are amended to provide a national framework for competition in metering and related services for residential and small business customers. To provide certainty to Local Network Service Providers, retailers, AEMO and small electricity customers in the unlikely event that the Rules have not been amended by 31 December 2016, it is proposed that the derogation expire on that date. Further discussion on the expiry date is set out in section 5.2.

To this aim, it is proposed that the effect of the proposed derogation will be that:

- notwithstanding clauses 7.2.2 and 7.2.3 of the Rules:
  - the retailer may not elect to be the responsible person for a relevant metering installation under clause 7.2.2(a);
  - the retailer will not be the responsible person for a relevant metering installation under clause 7.2.2(b); and
  - the Local Network Service Provider will be the responsible person as if the relevant metering installation was referred to in clause 7.2.3(a)(2);
- for the purposes of the Rules, the AMI meter can continue to be classified as either a metering installation type 5 or type 6 as the case may require;

[6] Note that the terms 'relevant metering installation' and 'AMI meters' are used interchangeably in this request.

- notwithstanding clause 7.3A(a) of the Rules, the existing distributor cost recovery arrangements relating to the AMI roll out will continue in accordance with the Victorian AMI Cost Recovery Order;
- for the purposes of the Rules, the minimum requirements for metering data acquisition referred to in clause 7.11.1(d) will continue to be applied to relevant metering installations.

Notwithstanding that the current (and the proposed) derogation refers to minimum requirements for the collection of metering data under clause 7.11.1(d) of the Rules, Local Network Service Providers will still be required by the Victorian AMI Specifications Order to comply with the Minimum AMI Service Levels Specification (Victoria) which will govern the remote collection of metering data from the AMI meters on a daily basis.

3. Statement of issues

The AMI meters are considered to be metering installations type 4 under the Rules and are therefore covered by clause 7.2.2 that provides that a Market Participant may elect to be the responsible person for metering installation types 1 to 4. Accordingly, in the absence of a derogation, the retailer may elect to be the responsible person for AMI meters.

As described in section 2 of this submission, it is proposed that these provisions would be subject to a derogation making the Local Network Service Provider the exclusive person for AMI meters and designating AMI meters as metering installations type 5 for a transitional period until the Rules have been amended to provide a national framework for competitive metering and related services for small electricity customers.

The AEMC's recent Power of Choice review identified a number of benefits associated with competitive metering and related services for small customers, by allowing the Market Participant to elect the responsible person for metering for these customers.[7]

The AEMC proposed amendments to the Rules to provide a framework for competition in metering and related services for residential and small business customers. The AEMC's Implementation Plan proposed an end of 2014 timeframe for making these amendments. This timeframe assumed that the Standing Council on Energy and Resources (SCER) would agree to the AEMC's recommendations at its December 2012 meeting and a working group would be established to implement the recommendation. At its December 2012 meeting, SCER agreed to progress work on these recommendations. However, a full response to the AEMC's recommendations was not released until March 2013. As a result, it is conceivable that the national framework may be delayed until some time in 2015.

Most of the benefits associated with competitive metering services that were identified by the AEMC in the Power of Choice review will be realised in Victoria through the rollout of AMI meters (which has been delivered by distributors on an exclusive basis). It is therefore important that competitive metering services for small Victorian electricity customers are introduced in an orderly

[7] AEMC, *Power of choice review – giving consumers options in the way they use electricity, Final Report*, 30 November 2012, Sydney. Available at http://www.aemc.gov.au/market-reviews/open/power-of-choice-update-page.html

way that minimises the incremental costs incurred so that there is a net benefit associated with introducing competitive metering services.

Independent of which party is the responsible person, metering arrangements are subject to considerable national regulation in relation to metering standards and performance; and metering data collection, validation and delivery. This regulation is designed to ensure that all relevant participants requiring customers' metering data receive timely, accurate data in an agreed format.

AMI meters are also required to comply with a Victorian-specific functional specification and minimum service levels specification that were developed in consultation with Local Network Service Providers and retailers. The functional specification and minimum service levels specification were informed by extensive research and analysis undertaken by the Victorian Government of functionalities adopted world-wide to minimise the risk, in the short term, of unrealised opportunities for product and service innovation. In the short term, the AMI meters thereby provide a platform for retailers to offer innovative services to the mass market, regardless of which party is the responsible person.

Additionally, the metering arrangements provide for specialist metering services to be performed by appropriately accredited organisations on a competitive basis. The derogation only seeks to specify that the responsible person for AMI meters will be the party responsible for the appointment of the service providers. In regulating the Local Network Service Providers' metering charges, the AER has a responsibility to ensure that these arrangements are efficient.

The following sections set out the issues arising from not making the proposed rule, and the way in which the proposed rule will address these issues.

3.1 The effect of not making the proposed rule

The Victorian Government supports in principle the introduction of a national framework for competition in metering and related services for small electricity customers, consistent with SCER's support for the AEMC's Power of Choice recommendations. However, it believes that an orderly transition to competitive metering services is required to ensure that there is a net benefit for Victoria by doing so.

There are a number of issues associated with enabling the retailer to elect the responsible person prior to the establishment of a national framework for competitive metering and related services, which will adversely impact on an orderly transition to metering contestability. These issues are:

(a) Inefficient business to business (B2B) processes

- Prior to the commencement of Full Retail Contestability (FRC), there were in the order of thousands of large electricity customers that had the choice of electricity retailer. Many of the B2B processes adopted by Local Network Service Providers and retailers were manual as the cost of automating the processes was much greater than the efficiencies gained through automation, and the cost of the manual process was low relative to the value of the electricity customer's account and the margin that could be earned.

- With the introduction of FRC, approximately 2.5 million electricity customers in Victoria were able to choose their electricity retailers. The processes developed prior to FRC for communicating between the retailers and Local Network Service Providers were inefficient – the costs were high relative to the value of the electricity customer's account and the margin that could be earned, and they could not process the high volume of transactions in the time frames required. Accordingly, with the introduction of FRC, the B2B processes were automated.
- The situation is similar to the introduction of metering contestability. Metering is currently contestable for a small number of large electricity customers. The metering costs for these large customers are higher than for small customers but are a relatively small proportion of the electricity customer's account and the margin that can be earned. Many of the processes between Local Network Service Providers and retailers are quite manual.
- If the retailer is able to elect to be the responsible person for AMI meters or if the AMI meters are classified as metering installations type 4, the current automated B2B processes for transactions related to small customers will need to be modified. This is because B2B transactions under the current arrangements assume that the Local Network Service Provider is responsible for the provision of the service, in conjunction with their responsibility for the meter, rather than the retailer. For example, Service Order Requests (such as Re-energisation, De-energisation and Meter Investigation) currently generate transactions from the retailer to the Service Provider. In the situation where the retailer is responsible for an AMI meter, it is anticipated that the Local Network Service Provider would need to be able to send such Service Order Requests to the retailer. This is not currently available in the B2B transactions.
- If competition in metering services is introduced without efficient B2B processes in place, any efficiency benefits associated with competitive metering services can be quickly eroded.

(b) Inefficient meter churn and barriers to retail electricity market competition

- One of the risks associated with metering contestability is the inefficient churn of meters. An inefficient churn of meters occurs when a consumer is required to replace a working meter when it changes electricity retailers . There is a societal cost incurred in replacing the working meter, particularly where AMI meters already have the functionality to deliver benefits to consumers from time of use pricing and demand side participation. In addition, the installation of a meter by a retailer may also create a barrier to consumers changing electricity retailers depending on how charges for that meter are handled under the consumer's contract with the retailer. This may have an impact on the competitiveness of the electricity retail market.
- In its Power of Choice review, the AEMC proposed introducing the role of a Metering Coordinator to avoid meter churn.[8] This has been accepted in principle by SCER.

[8] AEMC, *Power of choice review – giving consumers options in the way they use electricity, Final Report*, 30 November 2012, Sydney, page 89.

- Until the Rules are amended to provide for the Metering Coordinator role, the risks associated with the inefficient churn of meters with metering contestability, that have been identified by the AEMC in the Power of Choice review, remain.

(c) Inefficient development of Victorian-specific processes and systems to accommodate contestable metering services

- In its Power of Choice review, the AEMC has recommended the implementation of a national framework for the introduction of metering contestability for residential and small business customers. It is expected that the national framework will be implemented some time in 2015.
- If metering contestability for residential and small business customers is to commence in Victoria prior to the establishment of a national framework, Victorian-specific arrangements would need to be implemented.
- There is no certainty that the Victorian-specific arrangements would be consistent with the national framework and thus the development of Victorian-specific arrangements may not be efficient.
- For example, the development of the B2B processes is generally coordinated by AEMO, in consultation with the Local Network Service Providers and retailers in each participating jurisdiction. These parties would need to be engaged in the development of any Victorian-specific arrangements for metering contestability for residential and small business customers.
- It will be more efficient to amend the B2B processes as part of the development of the national framework for competitive metering services so that all relevant parties are engaged and there is no duplication of effort. It will also avoid incurring costs for developing a Victorian-specific solution that is not consistent with the national framework.
- In addition, the national framework could be delayed if the efforts of Victorian participants are distracted by the development of Victorian-specific processes and systems.

(d) Adverse impact on customer reliability with meter faults

- There is a risk that metering contestability may have an adverse impact on the reliability of a customer's supply where there is a meter fault through longer outages. This may arise where a Local Network Service Provider initially responds to a fault reported but then needs to refer the incident to the retailer where there is a meter fault and the retailer is the responsible person for the meter.
- While the probability of such an event may be low, the impact on that customer may be significant. The AMI roll-out has demonstrated that significant adverse media commentary may arise from a single isolated incident.[9]

[9] For example a safety audit was undertaken by Energy Safe Victoria in 2011 on the basis of one safety incident associated with smart meters. It concluded that the meters are being installed safely by qualified and trained individuals.

- Appropriate processes and systems will need to be developed by retailers and Local Network Service Providers to ensure that the duration of outages and thereby the reliability of supply for a customer with a meter fault is not adversely impacted with the introduction of contestable metering. These processes and systems should be developed as part of the national framework for metering contestability to avoid incurring costs for developing a Victorian-specific solution that is not consistent with the national framework.

(e) Lack of appropriate customer protections

- It is questionable whether there will be sufficient consumer confidence in the benefits of competitive metering services espoused by the retailers given that the consumers will most likely still be attempting to understand the rationale and implications of a mandated rollout of AMI meters, and the introduction of flexible pricing, which is scheduled to commence later in 2013.
- When the current jurisdictional derogation expires, innovative tariffs will only have been in place for a few months and the services which enable consumers to access their consumption data and make sound consumption and pricing decisions will only be in very early stages.
- There are risks associated with not adequately engaging with customers on competitive metering services, as evidenced by the level of mistrust by Victorians of the AMI rollout.

(f) Benefits associated with AMI roll-out will not be realised

- In 2011 Deloitte undertook a cost benefit analysis of the AMI rollout, extracts from which are provided as Annexure A.
- Deloitte identified a range of benefits associated with the AMI rollout including the avoided costs resulting from the AMI program, the benefits derived from efficiencies in network operations (largely remote de-energisation and remote re-energisation), benefits generated from innovative tariffs and demand management, and other smaller benefits.
- A process for allowing remote de-energisation and remote re-energisation has been developed in consultation with the safety regulator (Energy Safe Victoria (ESV)) which assumes the Local Network Service Provider is exclusively the responsible person for metering services. The process ensures that the safety of the network and the public are protected during a remote re-energisation or remote de-energisation.
- The benefits associated with remote re-energisation and remote de-energisation are estimated to be up to around $40 million per annum based on the 2011 Deloitte report. With the expiry of the existing jurisdictional derogation, a new process would need to be developed to continue to allow remote de-energisation and remote re-energisation in an environment in which the retailer is able to elect the responsible person.
- The 2011 Deloitte cost-benefit analysis on the AMI rollout identified a number of network operational efficiency benefits, many of which have an impact on the security and reliability of the electricity supply. These benefits will potentially be greater in areas where the distribution network is heavily loaded or constrained and the distributor is able to use the data from the AMI meters to operate the network more efficiently.

Unless the appropriate systems and processes are in place when metering contestability commences, these benefits may not be realised, particularly if the retailers assume responsibility for meters in a relatively concentrated area in which distribution equipment is heavily loaded.

- Based on the 2011 Deloitte cost-benefit analysis, the annual potential benefit not realised is estimated to be up to around $20 million per annum.
- The first phase of innovative tariffs (flexible pricing) will be introduced for small Victorian electricity customers in the second half of 2013, with further consideration to be given to the possibility of introducing some form of critical peak pricing at a later stage. It will take retailers and customers at least 12-18 months to understand and benefit from the introduction of innovative tariffs.
- If, during this period, retailers and customers are distracted by the concurrent introduction of competitive metering services, there is a risk that the benefits associated with innovative tariffs, estimated to be around $25 million per annum based on the 2011 Deloitte cost benefit analysis, may be compromised.

3.2 How the proposed rule will address the issues

The proposed rule will address the issues as follows:

(a) Efficient B2B processes

- If the Local Network Service Provider continues to exclusively be the responsible person for AMI meters and the AMI meters continue to be classified as metering installations type 5 until the national competitive metering framework is introduced, no Victorian-specific changes are required to the existing automated B2B processes.
- The B2B processes that are developed as part of the national framework can be utilised with the introduction of competitive metering services in Victoria. This will reduce the duplication of effort, which is more efficient.

(b) Inefficient meter churn avoided

- If the Local Network Service Provider continues to exclusively be the responsible person for AMI meters until the national competitive metering framework is introduced, there is no incentive for the Local Network Service Provider to replace the meter installed under the AMI rollout unless there is a meter fault.
- If the rule change is made so that the Local Network Service Provider continues to exclusively be the responsible person for AMI meters until the national competitive metering framework is introduced, there will be no risk that a consumer's working meter would be replaced because of a change of retailer. That is, there will be no inefficient meter churn and no potentially negative impacts on competition in the retail electricity market as a result.
- The role of Metering Coordinator, developed as part of the national framework for contestable metering services, can be utilised with the introduction of competitive metering services in Victoria. This will reduce the risk that the meter would be replaced with a change of electricity retailer. Adopting the Metering Coordinator role to address

inefficient meter churn will be more efficient than developing an interim Victorian-specific solution which would duplicate national efforts.

(c) Efficient development of processes and systems to accommodate contestable metering services

- If the Local Network Service Provider continues to exclusively be the responsible person for AMI meters until the national competitive metering framework is introduced, no Victorian-specific processes and systems will be required that may only be in place for a short period of time.
- The processes and systems that are developed as part of the national framework can be utilised with the introduction of competitive metering services in Victoria. This will reduce the duplication of effort, which is more efficient.
- The efforts of Victorian participants can be focused on developing the national framework rather than being distracted in the short term on the development of Victorian-specific processes and systems.

(d) Minimal impact on customers with meter faults

- If the Local Network Service Provider continues to exclusively be the responsible person for AMI meters until the national competitive metering framework is introduced, one party will continue to be responsible for faults in the distribution system and for metering–related faults.
- This will ensure the timely restoration of supply for customers with a meter fault.
- The process developed as part of the national framework for ensuring timely restoration of supply can be utilised when competitive metering services are introduced.

(e) Appropriate customer protections

- If the Local Network Service Provider continues to exclusively be the responsible person for AMI meters until the national competitive metering framework is introduced, the existing established consumer protection regime will be utilised; changes to the consumer protection regime, that would otherwise be required to ensure that the interests of consumers are appropriately protected with the introduction of competitive metering services, will not be required.
- The new national consumer protection regime, including communications campaign, that are to be developed as part of the national framework can be utilised with the introduction of national competitive metering arrangements in Victoria. This will ensure that customers' rights are appropriately protected without duplicating national efforts with the development of separate interim Victorian-specific arrangements outside of the national process.
- In addition, customers will have had a longer period in which to understand and benefit from the introduction of innovative tariffs prior to the introduction of metering contestability. This benefit should not be understated; there remains significant suspicion in the community about smart meters. Introducing metering contestability before consumers become accustomed to innovative tariffs risks alienating the community once again.

(f) Benefits associated with AMI roll-out will be realised

- If the Local Network Service Provider continues to exclusively be the responsible person for AMI meters until the national competitive metering framework is introduced, the existing processes that have been established with ESV for remote de-energisation and remote re-energisation will continue. This will ensure that the benefits associated with remote de-energisation and remote re-energisation, enabled through the rollout of AMI meters, are realised.
- If the Local Network Service Provider continues to exclusively be the responsible person for AMI meters for a transitional period, the existing processes established by the Local Network Service Providers to realise the network operational efficiency benefits associated with the AMI meters will continue.
- If the Local Network Service Provider continues to exclusively be the responsible person for AMI meters until the national competitive metering framework is introduced, retailers and customers will have the opportunity to understand and benefit from the introduction of innovative tariffs without being distracted by the concurrent introduction of competitive metering services. This will enable the benefits associated with innovative tariffs, enabled through the rollout of AMI meters, to be realised.

3.3 Impact on competition

It is submitted that the proposed rule, under which the Local Network Service Provider continues to exclusively be the responsible person for AMI meters, will:

(a) Enhance competition in the main retail electricity market as:

- Continued Local Network Service Provider responsibility would not create any barriers to customers switching between retailers. The risk that consumers may be required to replace their meter with a change of electricity retailer and face charges associated with that meter replacement would be avoided. That is, there would be no churn of metering assets.
- The introduction of the Metering Coordinator role as part of the national framework for metering contestability, would address the risk that a customer would be required to replace their meter as a result of changing retailers, thereby facilitating customer choice of retailer.
- With the introduction of innovative tariffs enabled by the rollout of AMI meters, and the functionality incorporated in the AMI meters, retailers would still have increased potential to make and compete on more targeted product, service and price offerings to customers even without metering contestability.

(b) Continue to provide for competition in the provision of metering services:

- Competition will continue to exist for the provision of metering services to the Local Network Service Provider, as the responsible person.
- Competition for the provision of other value-added metering services such as in-home displays, which are facilitated by AMI, will remain.

3.4 Transitional measure only

The Victorian Government supports in principle the introduction of a national framework for competition for metering services for small electricity customers consistent with SCER's support for the AEMC's Power of Choice recommendations. However, it believes that an orderly transition to competitive metering services is required to ensure that there is a net benefit for Victoria by doing so.

The most efficient approach to introducing metering contestability for small Victorian electricity customers would be to adopt the national framework recommended by the AEMC in its recent Power of Choice review. This would avoid Victorians incurring costs for Victorian-specific arrangements which are subsequently transitioned to a national framework.

In its Power of Choice Review Final Report Implementation Plan, the AEMC proposed that new arrangements to introduce a national framework for metering contestability for small electricity customers be in place by the end of 2014. This assumed that SCER would agree to the AEMC's recommendations at its December 2012 meeting and a working group would be established to implement the recommendation.

At this stage it would appear that it is unlikely that the target timeframe of end 2014 will be met. Although SCER agreed to progress work on the AEMC's recommendations at its December 2012 meeting, SCER's full response was not released until March 2013. It could therefore be reasonably assumed that the national frameworks will not be implemented until at least some time in 2015.

Given the uncertainty as to when the national framework will be implemented, a similar approach could be taken to the expiry date as to the existing jurisdictional derogation – the derogation could 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 could expire on that date.

A later date (end of 2016) rather than an earlier date (end of 2015) is proposed for the alternative expiry date so as to avoid the costs associated with seeking another rule change request for a potentially short delay in the implementation of the national framework.

4. National Electricity Market objective

The national electricity market objective (NEO) is stated in section 7 of the 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:*
>
> - *price, quality, safety, reliability and security of supply of electricity; and*
> - *the reliability, safety and security of the national electricity system.*

The ways in which the proposed derogation would or would be likely to contribute to this objective are set out below.

4.1 Effect of proposed derogation

The Victorian government anticipates the derogation would contribute to the NEO as follows:

- ensuring that the benefits of flexible pricing, which are enabled through the AMI rollout, are captured and thereby promote efficient investment in the electricity system and the efficient use of electricity;
- promoting efficient investment in meters through minimising the risk of newly installed AMI meters being replaced with a change of electricity retailer in the absence of a national framework for contestable metering services;
- promoting the security and reliability of the electricity supply through the network operational efficiency benefits enabled through the AMI rollout;
- not adversely impacting the safety of the supply of the electricity and the safety of the national electricity system while realising the benefits of remote de-energisation and remote re-energisation enabled through the AMI rollout; and
- promoting the long term interests of customers by minimising barriers to competition in the retail electricity market and by maximising net benefits to customers.

4.2 Promoting efficient investment in the electricity system and efficient use of electricity

The most efficient investment in generation and the network would occur if customers paid a price that was reflective of the costs associated with producing electricity at that time and made decisions as to whether to consume based on the actual cost. This would also provide an incentive for the most efficient use of electricity. However, historically such an approach has not been practicable with the type of metering installed for small customers – the costs have effectively been smeared across small customers using either one flat tariff or two flat tariffs where there is a separately controlled off peak electricity supply.

With the rollout of AMI meters to small customers, it is possible to introduce more innovative tariffs that aligns the cost with the tariff. In practice, there is a balance between the efficiency of real time pricing and the complexity of such an arrangement for most customers. A compromise is effectively struck on an appropriate tariff structure that best balances these competing objectives.

In its Power of Choice review, the AEMC has identified that one of the benefits of contestable metering is that:

> *…it will place a commercial pressure on the metering service providers to improve the metering services that they offer, including where retailers are competing to offer flexible pricing options.*[10]

The rollout of AMI meters to all small customers in Victoria facilitates the introduction of flexible pricing for all customers, subject to any constraints that are placed on the use of flexible pricing, regardless of retailer. The introduction of more flexible pricing in Victoria is therefore not reliant on metering contestability. In this regard, extending the existing jurisdictional metering derogation does not adversely impact on achieving the NEO.

[10] AEMC, *Power of choice review – giving consumers options in the way they use electricity,* 30 November 2012, page 85

Flexible pricing will be introduced on a widespread basis for domestic Victorian electricity customers in the second half of 2013. It will take retailers and customers at least 12-18 months to understand and benefit from the introduction of flexible pricing. Further consideration is being given to the possibility of subsequently introducing some form of critical peak pricing at a later stage.

If, during this period, retailers and customers are distracted by the concurrent introduction of contestable metering, there is a risk that the benefits associated with flexible pricing, estimated to be around $25 million per annum based on the 2011 Deloitte cost benefit analysis[11], may be compromised. This is inconsistent with the guiding principle to minimise the impacts on the delivery of customer services and benefits promised by the Victorian AMI roll-out.

Prior to the commencement of FRC, there were in the order of thousands of large electricity customers that had the choice of electricity retailer. Many of the B2B processes adopted by Local Network Service Providers and retailers were manual as the cost of automating the processes was much greater than the efficiencies gained through automation, and the cost of the manual process was low relative to the value of the electricity customer's account and the margin that could be earned.

With the introduction of FRC, approximately 2.5 million electricity customers were able to choose their electricity retailers. The processes developed prior to FRC were inefficient – the costs were high relative to the value of the electricity customer's account and the margin that could be earned, and they could not process the high volume of transactions in the time frames required. Accordingly, with the introduction of FRC the B2B processes were automated, a process that took years to complete.

The situation is similar to the introduction of metering contestability. Metering is currently contestable for a small number of large customers. The metering costs for these large customers are higher than for small customers but are a relatively small proportion of the electricity customer's account and the margin that can be earned. Many of the processes between Local Network Service Providers and retailers are quite manual.

With the introduction of metering contestability, B2B processes will need to be modified to allow for either the retailer or Local Network Service Provider to be the responsible person. The development of the B2B processes is generally coordinated by AEMO, in consultation with the Local Network Service Providers and retailers in each participating jurisdiction.

It will be more efficient to amend the B2B processes as part of the development of the national framework for competitive metering services so that all relevant parties are engaged and there is no duplication of effort. It will also avoid incurring costs for developing a Victorian-specific solution that is not consistent with the national framework.

[11] Annual benefit calculated assuming the benefit is the same in each year, with an NPV of $490 million for 2008-28 at 2008 and $617 million for 2012-28 at 2012. Includes benefits associated with energy conservation from time of use (TOU) tariffs, avoided network and generation augmentation due to peak demand response to TOU tariffs, and avoided network and generation augmentation resulting from critical peak pricing incentives (refer Table 5.6 in Annexure A).

If competition in metering services is introduced without efficient B2B processes in place, any benefits associated with competitive metering services can be quickly eroded.

4.3 Promoting efficient investment in electricity meters

The AEMC's Power of Choice review implies that the investment in metering services would be more efficient and more innovative if metering services were contestable and the risk of meter churn was addressed.

Prior to the commencement of the AMI rollout, the minimum functionality and service levels were developed jointly by the retailers and Local Network Service Providers to ensure that the needs of both parties were met and the use of innovative approaches, such as in home displays, would be facilitated. Retailers generally agree that the minimum functionalities and service levels which currently apply to meters installed by Local Network Service Providers should also apply to retailer-installed meters. In the short term, the benefits to be gained in terms of potential innovation arising from metering contestability in Victoria, by not extending the existing jurisdictional metering derogation, are therefore more limited than in the longer term.

In the short term, until the upfront costs associated with the rollout of AMI are depreciated, there is likely to be little benefit associated with more efficient metering services in a contestable metering market. The exit fees that would be payable for replacing a recently installed AMI meter are likely to act as a barrier initially, but will decrease progressively over time as the upfront capital costs are depreciated.

The Local Network Service Providers have advised that, if contestable metering services were introduced by not extending the jurisdictional derogation, retailers may install new and replacement meters. They have indicated to the Victorian Government that the number of meters for which the retailer could be responsible is between 50,000 and 100,000 meters per annum[12]. Conversely, one of the retailers has advised that the number of meters could be much lower. For the purposes of the analysis, it is assumed that the number of meters for which the retailer could be responsible could be as low as 10,000 – 20,000 per annum.

If the retailers were able to reduce the metering charges by 20 per cent relative to the Local Network Service Providers' metering charges, and assuming metering costs of $150 per annum[13], the benefits associated with not extending the jurisdictional derogation by up to three years would be up to between $1.8 million and $18 million[14].

One of the risks associated with metering contestability is the inefficient replacement of meters when a customer changes retailers. In its Power of Choice review, the AEMC has proposed introducing the role of a Metering Coordinator to avoid meter churn. This has been accepted in principle by SCER. It is unlikely that the Metering Coordinator role will be fully implemented by the

[12] This is on the basis of approximately 50,000 new connections with the retailer responsible for the meters installed and approximately 50,000 meters replaced where a consumer changes retailer and the new retailer is responsible for the meter.

[13] Estimated based on current metering charges and costs associated with metering for large customers

[14] 10,000 to 100,000 meters installed in year 1 – costs incurred = $150 * 3 * 10,000 or 100,000
10,000 to 100,000 meters installed in year 2 – costs incurred = $150 * 2 * 10,000 or 100,000
10,000 to 100,000 meters installed in year 3 – costs incurred = $150 * 1 * 10,000 or 100,000

expiry date of the current jurisdictional derogation. Victoria can either transition to contestability and then transition to the Metrology Coordinator role, or it can introduce a Victorian-specific approach. Both of these options introduce additional cost for Victorians which can be minimised by extending the jurisdictional derogation until the new national arrangements are introduced.

If it is assumed that, with the introduction of competitive metering services, up to 50,000 working meters are replaced each year with a change in retailer, and the additional societal costs of replacing working meters are $140 per meter per annum[15], the incremental societal costs associated with meters being replaced with a change of retailer would be up to around $42 million.[16] These costs will be reduced if fewer working meters are replaced each year with a change in retailer.

4.4 Promoting security and reliability of supply

The 2011 Deloitte cost-benefit analysis on the AMI rollout identified a number of network operational efficiency benefits, many of which have an impact on the security and reliability of the electricity supply. Unless the appropriate systems and processes are in place when the jurisdictional derogation expires, these benefits may not be realised. The types of benefits that may not be realisable in the short term in the absence of appropriate systems and processes are:

- reduction in unserved energy due to faster detection of outages and restoration times;
- avoided cost of proportion of transformer failures on overload and avoided unserved energy; and
- ability to set emergency demand limits to share supply at times of network stress or shortage.

Based on the 2011 Deloitte cost-benefit analysis, the annual potential benefit that may not be realised is estimated to be up to around $20 million per annum.[17]

In addition to potentially not realising benefits associated with the AMI roll-out, there is a risk that metering contestability may have an adverse impact on the reliability of a customer's supply where there is a meter fault. While the probability of such an event may be low, the impact on that customer may be significant. The AMI roll-out has demonstrated that significant adverse media commentary may arise from a single isolated incident.[18] Appropriate processes and systems will need to be developed by retailers and Local Network Service Providers to ensure that the reliability of supply for a customer with a meter fault is not adversely impacted with the introduction of contestable metering.

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[15] Estimated based on $150 per annum metering cost less $10 per annum for metering data services costs that would not be avoided and are therefore not additional societal costs

[16] 50,000 meters replaced in year 1 – costs incurred = $140 * 3 * 50,000
50,000 meters replaced in year 2 – costs incurred = $140 * 2 * 50,000
50,000 meters replaced in year 3 – costs incurred = $140 * 1 * 50,000

[17] Annual benefit calculated assuming the benefit is the same in each year, with an NPV of $177 million for 2008-28 at 2008 and $220 million for 2012-28 at 2012. Includes benefits associated with reduction in unserved energy due to faster detection of outages and restoration times, avoided cost of proportion of transformer failures on overload and avoided unserved energy, and ability to set emergency demand limits to share limited supply at times of network stress or shortage (refer Table 5.5 in Annexure A).

[18] For example a safety audit was undertaken by ESV in 2011 on the basis of one safety incident associated with smart meters. It concluded that the meters are being installed safely by qualified and trained individuals.

While the reliability and security of supply may be adversely impacted with the introduction of metering contestability if the appropriate processes and systems have not been implemented, the reliability and security of supply will not be adversely impacted if the jurisdictional derogation is extended.

4.5 Not adversely impacting safety

Deloitte identified a significant benefit of AMI meters associated with remote special reads, remote de-energisation and remote re-energisation. However, there are risks associated with remote de-energisation and remote re-energisation, particularly in relation to the de-energisation of customers on life support equipment and other sensitive loads and the re-energisation of premises where there is a safety risk.

A process has been developed to realise the benefits associated with remote re-energisation and remote de-energisation, which are estimated to be up to around $40 million per annum based on the 2011 Deloitte report.[19] The process has been developed based on the Local Network Service Provider being the responsible person for metering services.

ESV would not permit a remote re-energisation and remote de-energisation to occur unless it was assured that the process did not impact the safety of the network or the public. If the jurisdictional derogation was not extended and metering services were to be contestable, a process for remote re-energisation and remote de-energisation would need to be developed to ensure the benefits could continue to be realised.

The Local Network Service Providers have raised concerns with the Victorian Government that this process has not yet been developed. The retailers have indicated to the Victorian Government that ESV has reassured them that these concerns are not justified. While it is clear that a process could be developed, there is a time and cost associated for doing so. The experience gained during the development of the existing process indicates that this can take time. In the meantime, there can be no compromises where there is a risk to safety and during this period there is a risk that the benefits associated with remote re-energisation and remote de-energisation with the roll-out of AMI meters will not be realised.

The safety of the supply of electricity and the safety of the national electricity system will not be adversely impacted by extending the jurisdictional derogation.

4.6 Minimising barriers to competition in the retail electricity market

With the rollout of AMI meters in Victoria, and the minimum functionality available in AMI meters, customers will benefit from competition in the retail electricity market for the provision of enhanced products and service offerings that make use of that available AMI functionality.

If competitive metering arrangements are introduced in Victoria prior to the introduction of the role of the Metering Coordinator under the national framework, there is a risk that consumers will be required to replace their meters with a change of retailers. This could create a barrier to switching retailers and adversely impact on the competitiveness of the retail electricity market. As a result,

[19] Annual benefit calculated assuming the benefit is the same in each year, with an NPV of $358 million for 2008-28 at 2008 and $451 million for 2012-28 at 2012. Includes benefits associated with remote special reads and remote disconnections, and remote reconnections (refer Table 5.5 in Annexure A).

there is a risk that retail electricity prices may rise with a lower level of competition in the retail electricity market.

If the Local Network Service Provider continues to be responsible for AMI meters until the role of the Metering Coordinator is introduced, then the competitiveness of the retail electricity market will not be adversely impacted by the metering arrangements.

The benefits associated with a competitive retail electricity market are an order of magnitude greater than the benefits associated with a competitive metering market. As discussed earlier, the benefits associated with a competitive metering market have been assumed to be 20 per cent of the annual charge of around $150, or around $30 per year. The discounts associated with competitive retail offerings are in the order of 12 per cent off consumer electricity bills.[20] Assuming an annual average electricity bill for a residential customer of around $1,500[21]. this equates to a benefit of around $180 per annum. These benefits would be put at risk if metering arrangements created barriers to competition in the retail electricity market.

4.7 Maximising net benefits to customers

This section summarises, at a **high level**, the potential incremental costs and benefits associated with the following two options:

- no metering-related jurisdictional derogation with the expiration of the existing jurisdiction (option A); and
- the proposed Rule change which enables the Local Network Service Provider to continue to be exclusively responsible for AMI meters and for AMI meters to continue to be classified as metering installations type 5 (option B).

There is a high degree of uncertainty as to how participants would respond to the introduction of competition in the metering services market in the absence of the national framework for contestable metering services. The potential incremental costs and benefits that are estimated in this section therefore provide an indication only of the range of costs and benefits possible under the two options, rather than providing a definitive comparison of the two options.

Many of the incremental costs that have been identified from the 2011 Deloitte cost benefit study are the potential benefits associated with AMI metering that may not be realised without an orderly transition to metering contestability. For the purposes of this analysis, it is assumed that the benefits are realised in direct proportion to the number of AMI meters installed and that any loss in benefits is proportional to the number of AMI meters for which the Local Network Service Provider is no longer the responsible person[22]. However, it is noted that a greater (or lesser) proportion of the

[20] AEMC, *Victoria: Electricity price trends to 2015*, *Fact sheet*, March 2013

[21] Assumes a standing price of 31.9 c per kWh and average consumption of 4,636 kWh as per the AEMC's *Victoria: Electricity price trends to 2015*.

[22] Assumes that (10,000-100,000)/2.7 million of the benefits not realised in year 1, (20,000-200,000)/2.75 million of benefits not realised in year 2 and (30,000-300,000)/2.8 million of the benefits not realised in year 3, where there are 2.7 million meters in year 1 increasing by 50,000 meters per annum.

benefits may not be realised in respect to meters for which the Local Network Service Provider is not the responsible person depending on the specific circumstances[23].

The low level cost-benefit assumes that the retailers could install around 10,000 new meters per annum if the jurisdictional derogation was not extended while the high level cost-benefit analysis assumes that the retailers could install up to 100,000 meters per annum, of which 50,000 meters are new and 50,000 meters are replacement meters.

The incremental net benefits associated with the two options are set out in the following table.

[23] For example, if a retailer is responsible for a meter at a premise at which there is relatively high (or low) number of de-energisations and re-energisations, then the benefits not realised will be greater (or lesser). Similarly, if a retailer is responsible for meters in an area where there are relatively high (or low) network operational efficiencies, then the benefits not realised will be greater (or lesser).

Table 1 Summary of potential incremental costs and benefits

Description of incremental cost/benefit	Option A: Existing derogation expires	Option B: Proposed Rule change	Comments
Costs			
Rule change request		$1 million	Estimate of costs incurred by Victorian Government in submitting a rule change request, the AEMC in making the rule change and participants participating in the consultation process
Replacement of working meters with a change in retailer	$0 - $42 million		At high end, assumes that up to 50,000 meters are replaced in year 1, 100,000 meters are replaced in year 2 and 150,000 meters are replaced in year 3 with an avoided cost of $140 per meter per annum
Development of Victorian-specific arrangements that will be replaced by national arrangements	$6 million		Assumes that costs in the order of $1 million are incurred by AEMO, three distributors and two retailers
Risk that benefits associated with flexible pricing compromised	$0.3 – 2.7 million		Refer section 4.2 - assumes $25 million per annum benefit for all customers, and 2.7 million meters in year 1 increasing by 50,000 meters per annum. At low end, assumes that 10,000, 20,000 and 30,000 customers not benefitting from flexible pricing in years 1, 2 and 3, respectively. At high end, assumes that 100,000, 200,000 and 300,000 customers not benefiting from flexible pricing in years 1,2 and 3, respectively.
Risk that benefits associated with network operational efficiencies not realised	$0.2 – 2.1 million		Refer section 4.4 - assumes $20 million per annum benefit for all customers, and 2.7 million meters in year 1 increasing by 50,000 meters per annum. At low end, assumes that benefits associated with 10,000, 20,000 and 30,000 meters not realised in years 1, 2 and 3, respectively. At high end, assumes that benefits associated with 100,000, 200,000 and 300,000 meters not realised in years 1, 2 and 3, respectively.

Description of incremental cost/benefit	Option A: Existing derogation expires	Option B: Proposed Rule change	Comments
Risk that benefits associated with remote re-energisation and de-energisation not realised	$0.4 – 4.3 million		Refer section 4.5 - assumes $40 million per annum benefit for all customers, and 2.7 million meters in year 1 increasing by 50,000 meters per annum. At low end, assumes that benefits associated with 10,000, 20,000 and 30,000 meters not realised in years 1, 2 and 3, respectively. At high end, assumes that benefits associated with 100,000, 200,000 and 300,000 meters not realised in years 1, 2 and 3, respectively.
Risk that benefits associated with competitive retail electricity market compromised	$0 – 54 million		Refer section 4.6. Assumes annual electricity bill of $1,500 not reduced by 12% ($180) for 50,000 customers in year 1, 100,000 in year 2 and 150,000 in year 3.
Benefits			
Efficient metering services	$1.8 – 18 million		Refer section 4.3. Assumes annual metering charge of $150 reduced by 20% for between 10,000 and 100,000 customers in year 1, between 20,000 and 200,000 in year 2 and between 30,000 and 300,000 in year 3.
Customer engagement campaign to support introduction of metering contestability deferred by three years		$0.8 – 1.5 million	Assumes a customer engagement campaign of between $5 and $10 million is deferred for three years, with an associated benefit of 5% per year
Net incremental benefit	**$(93.1) – (5.1) million**	**$(0.2) – 0.5 million**	

There is a potential net incremental benefit to Victorians associated with the proposed Rule change of $0.5 million. The minimum net potential incremental cost associated with allowing the existing derogation to expire is $5.1 million .

However, the maximum potential net incremental cost to Victorians associated with allowing the existing derogation to expire ($93.1 million) is estimated to be significantly greater than with the proposed Rule change ($0.2 million). This is largely due to the risk that the benefits associated with a competitive retail electricity market will not be realised, societal cost associated with the inefficient replacement of working meters with a change of retailer and the benefits associated with AMI meters that may not be realised if metering contestability is not introduced in an orderly way, offset by potential efficiencies in metering services.

The interests of Victorian customers are thus protected if the proposed Rule change is made.

5. Jurisdictional derogation

5.1 Jurisdictional derogations

Section 89 of the NEL provides that, in making a jurisdictional derogation, the AEMC must 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 proposed derogation is consistent with the concepts described in paragraph (b) of section 89. Accordingly, it is considered appropriate, at this stage, to request the AEMC to make the proposed derogation (rather than to continue the existing regulatory arrangements through Victorian specific instruments).

The existing regulatory arrangements applying to metering for residential and small business customers include an existing jurisdictional derogation that is due to lapse at the end of December 2013. The existing derogation provides for:

- the Local Network Service Provider to be exclusively responsible for *relevant metering installations*;

- AMI meters to be classified as type 5 or type 6 metering installations;
- costs associated with AMI meters to be recovered by the Local Network Service Provider through the AMI cost recovery order; and
- AMI meters to be taken as not having remote acquisition of actual metering data for the purposes of clause 7.11.1(d) of the Rules.

The Victorian Government supports in principle the introduction of a national framework for competition for metering and related services for residential and small business customers, consistent with SCER's support for the AEMC's Power of Choice recommendations. However, there is currently no framework in the Rules for implementing contestability.

In its Power of Choice Review Final Report Implementation Plan, the AEMC proposed that the timeframe for introducing a national framework for metering contestability for residential and small business customers was the end of 2014. This assumed that SCER would agree to the AEMC's recommendations at its December 2012 meeting and a working group would be established to implement the recommendation.

At this stage it would appear that it is unlikely that this timeframe will be met. Although SCER agreed to progress work on the AEMC's recommendations at its December 2012 meeting, SCER's full response was not released until March 2013. It could therefore be reasonably assumed that the national frameworks will not be implemented until at least 2015.

To address the issues arising from the introduction of contestable metering services in the absence of a national framework, and to minimise the transaction costs associated with implementing Victorian-specific arrangements and then transitioning to the national framework, it is necessary and appropriate to extend the existing regulatory arrangements applying to metering for residential and small business customers until the Rules are amended to provide a national framework for competitive metering services. The existing regulatory arrangements applying to metering for residential and small business customers are for the Local Network Service Provider to be exclusively responsible for relevant metering installations and for AMI meters to be classified as type 5 or type 6 metering installations.

While it is the Victorian Government's expectation that all AMI meters should now be read as interval meters, there may be some unusual or exceptional circumstances where it may be necessary to temporarily read them as accumulation meters. Consistent with the aim of extending the existing regulatory arrangements and to avoid unintended consequences of changes to the drafting of the derogation, it is proposed that AMI meters can continue to be classified as type 5 or type 6 metering installations as may be appropriate in the circumstances.

Similarly, while it is the Victorian Government's expectation that all AMI meters should be now read remotely, there may be some unusual or exceptional circumstances where it may be necessary to temporarily read them manually. Consistent with the aim of extending the existing regulatory arrangements and to avoid unintended consequences of changes to the drafting of the derogation, it is proposed that, for the purposes of the Rules, AMI meters continue to be taken as not having remote acquisition of actual metering data for the purposes of clause 7.11.1(d) of the Rules.

It is noted, however, that Local Network Service Providers will still be required by the Victorian AMI Specifications Order to comply with the Minimum AMI Service Levels Specification (Victoria), which specifies that remote collection of metering data from the AMI meters be provided on a daily basis.

In reviewing the classification of relevant metering installations under clause 9.9B.4, it appears that paragraph (b) of that clause is no longer required. Paragraph (b) was required because of the former definition of "remote acquisition" which did not include, or at least there was doubt as to whether it included, all of the transmission by the telecommunications network. The amendments made by the *National Electricity Amendment (Provision of Metering Data Services etc) Rule 2010 No 12* appear to have removed the need for this paragraph. Accordingly, clause 9.9B.4(b) is not retained in the drafting of proposed clause 9.9C.5 which is intended to otherwise continue the effect of clause 9.9B.4.

The provision in the existing regulatory arrangements that relates to recovery of the costs associated with AMI meters by the Local Network Service Provider through the AMI cost recovery order is a derogation to clause 7.3.6(a) of the Rules. Clause 7.3.6 has been deleted from the Rules and effectively replaced with the insertion of clause 7.3A. To continue the intent of the cost recovery provision of the existing derogation, it is proposed that the reference to clause 7.3.6 be updated to refer to clause 7.3A.

Similarly, the reference to Schedule 2 of the *metrology procedure* in the definition of *volume consumption* ought to be updated to refer to clause 2.4.17 which appears to have substantively replaced Schedule 2.

In addition, the definition of 'relevant metering installation' has been updated to clarify the intent of the definition and to reflect changes to chapter 7 of the Rules made after commencement of the derogation. Other minor changes (not intended to impact the effect of the derogation) are also suggested.

As required by section 89(b) of the NEL, the Minister for Energy and Resources has notified the AEMC in writing that he considers it necessary and appropriate that the existing regulatory arrangements with respect to the Local Network Service Provider being exclusively responsible for AMI meters and for AMI meters to be classified as type 5 metering installations continue (as discussed above).

5.2 Expiry date

The proposed derogation will expire on the earlier of the commencement under the NEL of amendments to the Rules that provide a framework for competition in metering and related services for residential and small business customers (including an orderly transition from the existing arrangements) and 31 December 2016.

In its Power of Choice review, the AEMC recommended that the Rules be amended to provide a framework for competition in metering and related services by the end of 2014. However, it is expected that the Rules are more likely to be amended some time in 2015 given that SCER's full response to the AEMC's recommendation was not released until three months later than assumed in the AEMC's Implementation Plan.

In the unlikely event that the Rules have not been amended by 31 December 2016, it is proposed that the derogation will expire on that date. This provides some certainty to Local Network Service Providers, retailers, AEMO and small electricity customers as to the date by when the proposed derogation will expire.

Schedule 1: Existing Victorian derogation relating to the AMI rollout

9.9B Advanced Interval Meter Roll Out

9.9B.1 Definitions

In this rule 9.9B:

AMI rollout means the rollout of advanced metering infrastructure provided for in the cost recovery order.

cost recovery order means the order dated 28 August 2007 made by the Governor in Council under section 15A and section 46D of the *EI Act* and published in the Victorian Government Gazette, as amended by the order dated 25 November 2008 made by the Governor in Council under section 15A and section 46D of the *EI Act*, and by any subsequent Order in Council under section 46D of the *EI Act*.

relevant metering installation means a *metering installation* for a *connection point* located in Victoria (other than a type 1 or type 2 *metering installation*) in respect of which the volume consumption of the customer is less than 160 MWh per annum of *energy* and which:

(a) is installed on or after 1 July 2009, unless the *Market Participant* is the *responsible person* for the *metering installation* which has been installed in accordance with the ordinary replacement cycle of the *Market Participant*; or

(b) was installed prior to 1 July 2009, unless the *Market Participant* is the *responsible person* for the *metering installation* at 1 July 2009,

and which is not a *metering installation* located at a *high voltage connection point*.

volume consumption means the volume of *energy* consumed by a customer at the relevant *connection point* calculated in accordance with Schedule 2 of the *metrology procedure*.

9.9B.2 Expiry date

This rule 9.9B expires on the earlier of:

(a) 31 December 2013; and

(b) the commencement under the *National Electricity Law* of amendments to the *Rules* that:

  (1) facilitate the roll out of smart meters, advanced metering or similar *metering installations* of at least the equivalent scope and purpose of the AMI rollout; and

  (2) provide for an orderly transfer of the regulation of relevant *metering installations* under this rule 9.9B to the regulation of *metering installations* under the *Rules*.

9.9B.3 Designation as responsible person

Despite clauses 7.2.2 and 7.2.3, the *Local Network Service Provider* is the *responsible person* for a relevant *metering installation*.

9.9B.4 Classification of relevant metering installations

(a) A relevant *metering installation* which is capable of *remote acquisition* but otherwise would be a type 5 or type 6 *metering installation*, is taken to be a type 5 or type 6 *metering installation* respectively.

(b) For the purposes of this rule 9.9B, the definition of *remote acquisition* in Chapter 10 of the *Rules* is taken to include the transmission of *metering data* from the site of the *metering point* to the *metering database* via the *metering installation database*.

9.9B.5 Cost recovery of AMI roll out

Clause 7.3.6(a) does not apply to the recovery of costs by a *Local Network Service Provider* that are associated with the provision, installation, maintenance, routine testing and inspection of relevant *metering installations*, to the extent that these costs can be recovered by the *Local Network Service Provider* in accordance with the cost recovery order.

9.6B.6 [Deleted]

9.9B.7 [Deleted]

9.9B.8 Capability for remote acquisition of metering data

For the purposes of clause 7.11.1(d), a relevant *metering installation* is taken not to have the capability for *remote acquisition* of actual *metering data*.

Schedule 2: Sample drafting for proposed derogation

9.9C Metering services for residential and small business customers

9.9C.1 Definitions

(a) In this clause 9.9C:

AMI Cost Recovery Order means the Order in Council made on 28 August 2007 under sections 15A and 46D of the *EI Act* and published in the Victoria Government Gazette S200 on that day as amended by the Order in Council made 12 November 2007 and published in the Victoria Government Gazette S286 on that day, the Order in Council made 25 November 2008 and published in the Victoria Government Gazette S314 on that day, the Order in Council made on 31 March 2009 and published in the Victoria Government Gazette G14 on 2 April 2009, the Order in Council made 19 October 2010 and published in the Victoria Government Gazette G42 on 21 October 2010, and the Order in Council made on 21 December 2011 and published in the Victoria Government Gazette G51 on 22 December 2011, and as further amended from time to time.

relevant metering installation means a *metering installation* for a *connection point* located in Victoria in respect of which the volume consumption of the customer is less than 160 MWh per annum of *energy* excluding any such *metering installation* that:

(a) was installed prior to 1 July 2009 and in respect of which, as at that date, a retailer was the *responsible person* for; or

(b) was installed on or after 1 July 2009, by a retailer as part of that retailer's ordinary replacement cycle of those *metering installations* that the retailer was, as at 1 July 2009, the *responsible person* for;

(c) is a type 1 *metering installation*;

(d) is a type 2 *metering installation*; or

(e) is located at a *high voltage connection point*.

retailer has the same meaning as in the *EI Act*.

volume consumption means the volume of *energy* consumed by a customer at the relevant *connection point* calculated in accordance with clause 2.4.17 of the *metrology procedure*.

(b) In this clause 9.9C and for the purposes of the definition of relevant metering installation, and notwithstanding anything to the contrary in clause 7.3.1(b) or in the definition of *metering installation*, the components of a *metering installation* and the definition of *metering installation* are taken to include a *meter*.

9.9C.2 Commencement date

This clause 9.9C commences on the expiry of clause 9.9B.

9.9C.3 Expiry date

This clause 9.9C expires on the earlier of:

(a) the commencement in Victoria under the *National Electricity Law* of amendments to the *Rules* that provide:

(1) a framework for competition in metering and related services for residential and small business customers; and

(2) for an orderly transfer of the regulation of relevant metering installations under this clause 9.9C to the regulation of *metering installations* under the *Rules*; or

(b) 31 December 2016.

9.9C.4 Designation as responsible person

Despite anything to the contrary in clauses 7.2.2 and 7.2.3, the *Local Network Service Provider* is the *responsible person* for a relevant metering installation.

9.9C.5 Classification of relevant metering installations

A relevant *metering installation* which, but for it being capable of *remote acquisition,* would be a type 5 or type 6 *metering installation*, is taken to be a type 5 or type 6 *metering installation* respectively.

9.9C.6 Cost recovery of AMI rollout

Clause 7.3A(a) does not apply to the recovery of costs by a *Local Network Service Provider* that are associated with the provision, installation, maintenance, routine testing and inspection of relevant metering installations, to the extent that these costs can be recovered by the *Local Network Service Provider* in accordance with the AMI Cost Recovery Order.

9.9C.7 Capability for remote acquisition of metering data

For the purposes of clause 7.11.1(d), a relevant metering installation is taken not to have the capability for *remote acquisition* of actual *metering data*.

Annexure A: Extracts from the Deloitte cost benefit analysis

Deloitte 2011, Advanced metering infrastructure cost benefit analysis, Final report, 2 August 2011. Accessible from http://www.dpi.vic.gov.au/smart-meters/resources/reports-and-consultations.

Table 5.8 (see Deloitte 2011, p. 98) showing total likely AMI benefits under the scenarios considered by Deloitte.

Table 5.8: 'Slowing the pace': benefits from 2012 (millions, $2011)

Benefit category	AMI Program 2008-28 (NPV at 2008)	AMI Program 2012-28 (NPV at 2012)	'Slowing the pace' (NPV at 2012)
Avoided costs resulting from AMI Program	802	729	729
Benefits derived from efficiencies in network operations	587	733	461
Benefits generated from innovative tariffs and demand management	490	617	380
Other smaller benefits	151	205	166
Total	**2 030**	**2 285**	**1 736**

Each of these line items are further itemised in the tables below.

Table 5.4 (see Deloitte 2011, p. 95) presents the benefits attributable to the avoided costs of accumulation metering capex and meter reading under the AMI Program under the scenarios assessed by Deloitte.

Table 5.4: Post 2012 analysis: Avoided cost benefits of AMI (millions, $2011)

Benefit	AMI Program 2008-28 (NPV at 2008)	AMI Program 2012-28 (NPV at 2012)	'Slowing the pace' (NPV at 2012)
Avoided cost of replacing accumulation meters	649	581	581
Avoided cost of replacing time switches	Incorporated within avoided cost of replacing accumulation meters	n/a	n/a
Avoided cost of manual meter reading	154	148	148
TOTAL	**802**	**729**	**729**

Table 5.5 (see Deloitte 2011, p. 96) illustrates benefits derived from network operational efficiencies in NPV terms under the scenarios assessed by Deloitte.

Table 5.5: Post 2012 analysis: Network operational efficiency benefits (millions, $2011)

Benefit	AMI Program 2008-28 (NPV at 2008)	AMI Program 2012-28 (NPV at 2012)	'Slowing the pace' (NPV at 2012)
Reduction in unserved energy due to faster detection of outages and restoration times	66	83	32
Remote special reads and remote disconnections	149	187	146
Remote reconnections	209	263	205
Avoided additional cost of energy from time switch clock errors	26	30	23
Savings from reduction in non-technical losses (theft)	27	33	26
Avoided cost of proportion of transformer failures on overload and avoided unserved energy	29	34	26
Ability to set emergency demand limits to share limited supply at times of network stress or shortage	82	103	4
Total	**587**	**733**	**461**

Table 5.6 (Deloitte 2011, p.97) illustrates the total benefits derived from innovative tariffs and demand management in NPV terms under the scenarios assessed by Deloitte.

Table 5.6: Post 2012 analysis: Innovative tariffs and demand management (millions, $2011)

Benefit	AMI Program 2008-28 (NPV at 2008)	AMI Program 2012-28 (NPV at 2012)	'Slowing the pace' (NPV at 2012)
Energy conservation from time of use (TOU) tariffs	1	1	1
Avoided network and generation augmentation due to peak demand response to TOU tariffs	11	14	10
Avoided network and generation augmentation resulting from critical peak pricing incentives	217	273	155
Energy conservation from in home displays (IHDs) and enhanced billing	77	96	67
Reduced peak demand due to direct load control of air conditioners.	184	232	147
Total	**490**	**617**	**380**

Table 5.7 (Deloitte 2011, p.97) illustrates the remaining smaller benefits in NPV terms under the scenarios assessed by Deloitte.

Table 5.7: Post 2012 analysis: Smaller benefits (millions, $2011)

Benefit	AMI Program 2008-28 (NPV at 2008)	AMI Program 2012-28 (NPV at 2012)	'Slowing the pace' (NPV at 2012)
Avoided cost of investigation of customer complaints about voltage and quality of supply, including equipment cost and costs of reporting to regulator	39	53	42
Avoided costs of installing import / export metering	35	48	38
Avoided cost of investigation of customer complaints of loss of supply which turn out to be not a loss of supply	15	20	16
Reduction in calls to faults and emergencies lines	14	19	19
Customer benefit of being able to switch retailer more quickly and more certainly. (Note: this is not the bill saving)	8	11	9
Reduced testing of meters	7	10	8
Reduced cost of network loading studies for network planning	5	7	5
Avoided cost of replacing service fuses that fail from overload	5	7	5
Avoided cost of proportion of HV/LV transformer fuse operations on overload	5	7	5
Reduction in calls related to estimated bills and high bill enquiries	5	6	5
Avoided cost of supply capacity circuit breaker	4	5	4
Avoided cost of end of line monitoring	4	5	4
Avoided cost of communications to feeder automation equipment	3	4	3
Reduction in the administration cost of bad debt incurred on non-payment on move outs	2	3	2
Total	**151**	**205**	**166**