Energy Retailers Association of Australia Limited

11 October 2012

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: aemc@aemc.gov.au

Dear Mr Pierce

RE: Energy Market Arrangements for Electric and Natural Gas Vehicles – Draft Advice

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on Australian Energy Market Commission (AEMC) Energy Market Arrangements for Electric and Natural Gas Vehicles – Draft Advice (the Draft Advice).

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the National Electricity Market and are the first point of contact for end use customers of both electricity and gas.

In this submission the ERAA has not provided specific comments on all issues raised in the Draft Advice. We refer to the individual submissions of our members for more specific input and strongly recommend that the AEMC has due regard to these submissions. The ERAA would like to reiterate the points made in our February 2012 submission to the AEMC's Approach Paper on Energy Market Arrangements for Electric and Natural Gas Vehicles, in addition to providing the following comments on the Draft Advice.

The sale of EV charging as the sale of electricity

The ERAA supports the AEMC's view that Electric Vehicle (EV) charging is the sale of electricity, and that EV charging agencies should therefore be subject to the National Energy Customer Framework (NECF). It is difficult to see how a sustainable and equitable consumer outcome could be achieved by considering EV charging as something else, as different customers will have different access to consumer protections depending on how EV charging was sold to them. This also sets a poor precedent in the market: if EV charging is not seen as the sale of electricity this will open the market to future business models that provide electricity under another name. The ERAA's position is that EVs should be treated as any other consumer electricity load.

There is a fundamental difference between the on-supply of electricity (or equally, the distributed generation of electricity) for EVs and other third parties (such as caravan parks). Some EV businesses believe the supply of electricity (and the cost, control and metering thereof) is a fundamental aspect of their business, and have identified the need to separately meter that use of electricity to support their chosen business model. On the other hand, other EV vendors and on-suppliers of electricity understand

that the supply of electricity is either not part of their business at all (e.g. some car manufacturers selling EVs) or an incidental aspect of their business (e.g. caravan parks), and thus there is no need for sub metering.

An important consideration of this review is the impact of non-essential energy services on essential energy services. The Draft Advice did not contain an adequate discussion of what is deemed to be essential and what isn't. Without a clear analysis of this issue, uncertainty remains around the potential impact of EVs on essential electricity services.

The ERAA is concerned with the following part of Draft Recommendation 4.1 from the Draft Advice:

"For bundled service providers, we recommend that the AER or the Economic Regulation Authority of Western Australia (ERA) determine whether the services offered constitute a legal sale of electricity. The AER or ERA should consider whether the sale of electricity is a primary or incidental part of the bundle of services provided."[1]

The ERAA does not consider it appropriate for the AER or ERA to determine what constitutes the sale of energy. Instead, the AEMC should provide more specific policy direction on this issue following further consultation, as this was not adequately addressed in the Draft Advice.

The ERAA would like to reiterate its policy position on the third party sale of energy management services. This is outlined by the ERAA in our recently released smart meter Working Papers. *ERAA smart meter Working Paper 5 – Third party and distributor sale of energy management services*, is particularly relevant to EVs, and is attached for the AEMC's information. As EVs have been recognised by the AEMC as constituting the legal sale of energy, the ERAA believes that some form of retail licence or NECF authorisation is required. Again, this policy framework should be developed by the AEMC in consultation with relevant stakeholders.

Parent-child NMIs and disconnection of premises

The ERAA does not believe that parent-child National Metering Identifiers (NMIs) require further regulatory support in the electricity market. Contrary to the views of some proponents, the creation of child NMIs for EV load is not necessary or appropriate for significant EV uptake, and the costs to consumers will be high if this is the path taken for mainstream application. The ERAA recommends that as an alternative approach, smart metering technology could accommodate the metering requirements required for the charging of EV's, or any appliance that requires metering as a fundamental part of their applications. This is detailed in scenario 4 of ERAA *Working Paper 2 – Market-driven smart meter roll out*, where the ERAA notes that "there is no need for any over-engineered 'solutions' to the metering arrangements at the house — there is no need for a second meter, a child meter or second NMI at the premises. As a result, the costs to the *Householder* of obtaining services from third parties such as *Electric Vehicles* is lower than if new or additional metering arrangements were put in place. This in turn can widen the appeal of these sorts of services to the customers."[2]

[1] AEMC (2012), Energy Market Arrangements for Electric and Natural Gas Vehicles, Draft Advice, p.45.
[2] ERAA (2012), ERAA smart meter Working Paper 5 – Third party and distributor sale of energy management services, p.9

The ERAA would like to address some areas of concern in the Draft Advice relating to disconnections. The Draft Advice states that:

"On balance, we recommend that the most appropriate approach for a connection point with two or more FRMPs is for both FRMPs to have the power to disconnect the consumer's total load."[3]

The ERAA is concerned with this statement, and the potential ramifications that this will have on the consumer protection framework that underpins the energy industry. Retailers are subject to quite strict provisions as to when and how disconnections can occur in the market. The AEMC has not given due regard to how disconnection processes detailed in the Draft Advice will work in scenarios where consumers have certain provisions that may prevent disconnection to occur (for example hardship, disabilities or life support requirements).

Similarly, the AEMC's position on the relationship between the NECF and the Australian Consumer Law (ACL) as outlined below requires clarification:

"We recognise that a particular consumer who uses a bundled service provider for its EV load while using an authorised electricity retailer for its non-EV load could be subject to two sets of consumer protection regimes:

- the energy market specific consumer protections for its non-EV load; and
- (if the bundled service provider is not involved in the sale of electricity) the Australian Consumer Law for its EV load.

However, we consider that, in practice, this is not a material issue as these frameworks are complementary and attempt to achieve similar consumer protection objectives."[4]

The ERAA strongly believes that this is a material misinterpretation of the differences that exist between the NECF and the ACL. The ERAA requests that the AEMC publishes a statement in their final report recognising these significant differences. In response to question 9 (2), the ERAA considers this proposal unsuitable in both of the following instances:

1. *Where all FRMPs are subject to NECF*. In this situation it is not appropriate to take away control of a retailer's credit management for the premises. Under the NECF, customers on life support, in a hardship program or in an ombudsman process are unable to be disconnected.
2. *Where only one FRMP is subject to NECF*. This would raise similar issues, although there would also be the risk that FRMPs not covered by NECF have a lesser understanding of the importance of NECF obligations.

It is essential that each part of the load is able to be disconnected independent of the other Financially Responsible Market Participant. As outlined above, this could be achieved through minimum technical metering specifications.

Cost-benefit analysis

Finally, the ERAA would also like to raise the need for a robust and transparent cost-benefit analysis as part of this review. Whilst some figures were reported in the Draft Advice, they lacked validity. For example, the Draft Advice (in relation to the cost of separate metering) states:

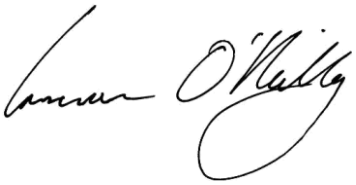
[3] AEMC (2012), Energy Market Arrangements for Electric and Natural Gas Vehicles, Draft Advice, p.39
[4] AEMC (2012), Energy Market Arrangements for Electric and Natural Gas Vehicles, Draft Advice, p.52

"…better place (an EV services provider) advised that installing a second metering installation at a premise costs between $1,000 and $8,000. We have not verified these cost estimates."[5]

In addition to independently verifying these costs, it is important to look at the costs associated with changes to the overall energy market, as there are many indirect costs that will arise from changes to metering arrangements. Whilst the goal of increasing customer choice is welcomed, it is not welcomed at any cost.

Should you wish to discuss the details of this submission further, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely



Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia

[5] AEMC (2012), Energy Market Arrangements for Electric and Natural Gas Vehicles, Draft Advice, p.29

Enabling a market-driven smart meter rollout

ERAA smart meter Working Paper 2

Energy Retailers Association of Australia
Suite 3, Level 5, 189 Kent Street Sydney NSW 2000
T (02) 8241 1800 **E** info@eraa.com.au
www.eraa.com.au

eraa
Energy Retailers Association of Australia

Enabling a market-driven smart meter rollout

Energy Retailers Association of Australia (ERAA) smart meter Working Paper 2

Introduction

This paper sets out how retailers could lead a rollout of smart metering to small customers without the need for government intervention, while operating in a competitive market and maintaining customer choice. The paper works through some scenarios to show how such a market-driven rollout could work and addresses some of the perceived issues and commonly asked questions from a competitive metering and services model.

The "market-driven" rollout model presented in this paper is very different to other rollouts experienced in Australia, particularly Victoria. The rollout is commercially led rather than due to a mandated or regulated undertaking. The model assumes that anyone could make a decision that installing a smart meter would result in benefits — customers; retailers; distributors; meter providers; third party service providers. However, the retailer as the Financially Responsible Participant for a premise is the party that coordinates the installation of the meter and the provision of meter services, such as meter reading. It is important for the prudential stability of the electricity market that retailers are ultimately responsible for the metering arrangements at a premise. A meter does not just determine the customer bills but settlement between the retailer and the market, and the commercial arrangements between the retailer and the network. Determining who is responsible for, and who can own, the meter is important to the operation of the market and to innovations that benefit customers.

The key advantage of the model is that competitive metering means better outcomes for customers, such as lower costs and better services without a requirement for a government mandate. As a result, it reduces the political risk to government.

ERAA's policy position — smart technology in the energy retail market

The ERAA and its members support the implementation of smart metering and consider that smart meters have an important role to play.[1] Some of the benefits that the ERAA and its members see in smart metering include:

- The ability to provide customers with more accurate and timely bills;
- Reducing customers' exposure to 'bill shock' by increasing customer billing cycles;
- Helping customers better manage and understand their energy consumption and costs; and
- Allowing customers to choose new and innovative products and services.

[1] Energy Retailers' Association of Australia 2012 Smart Technology in the Energy Market, Position Paper, January 2012, www.eraa.com.au

However, the ERAA believes that any decision of policy makers to support exclusive control of smart metering (for example, by distributors in Victoria) is inconsistent with the original principles of electricity reform and national competition policy and that this approach poses a significant risk to competition in energy retail markets.

Retailers are well-placed to deliver smart metering to customers, including residential and small business customers. Competition between retailers underpins the incentives that retailers have to roll out smart meters to their customers and to deliver the range of services and products that customer want at a price they are willing to pay. As it is delivered through a competitive market, a market-driven roll out of smart meters avoids the inherent difficulties and imperfections of network price regulation.

A market-driven rollout also ensures that the meter specifications are based on the smart metering services that customers want and provide the flexibility for retailers to develop new products and services for their customers. Distributor-led roll outs are typically focussed on the needs of the distributor and not necessarily about the enabling technology that delivers what the customer wants. Mandated distributor-led rollouts creates the potential for customer needs to be secondary to industry needs, alienating the customer, and making the customer feel as though they are paying for something they did not ask for (as has occurred in Victoria).

Drivers of a market-driven rollout

Competition and the ability to reduce operational costs and inefficiencies are the key incentives that retailers have to roll out smart meters to customers, including residential and small business customers. The potential to offer customers the benefits of smart meters can provide a retailer with a competitive advantage. A retailer that rolls out smart meters first can offer new and existing customers a range of energy information and management services. As a result of the first retailer's initiative, other retailers will be incentivised to offer the benefits of smart meters to new and existing customers to protect market share and also grow market share at the expense of retailers that are not so willing to innovate.

The other incentive that retailers have is that smart meters allow retailers to access significant internal operational efficiencies that can assist the internal business case on the rollout of smart meters. These efficiencies can include:

- Reduced exposure to wholesale and settlement risk as wholesale positions are more aligned to actual rather than net system load profiles;
- The automatic delivery of consumption data to retail operations allowing for more accurate reconciliation, settlement and billing capabilities;
- Better consumer analytics to assist in the development of new products;
- Lower meter reading costs as remote reads replace manual meter reads (including special reads);
- Lower disconnection/reconnection costs as remote de-energisation and re-energisation replace manual disconnections and reconnections;
- More accurate meter reads resulting in reduced back office costs;
- The potential to bill customers monthly and with actual rather than estimated meter reads reducing 'bill shock', bad debt write offs and associated ombudsman and customers complaints; and

- Assisting to reduce working capital requirements as cash flows improve as the time gap between when wholesale and network bills are settled and when customers' bills are paid is reduced.

The incentives that retailers have to roll out smart meters means that any roll out can be achieved without the need for regulatory or Government intervention. A market driven rollout will, by definition, occurs in response to consumers being ready and willing to have their meters upgraded in order to access better products. This means that the political risk to governments will be greatly reduced relative to larger scale mandated rollouts. Unlike a mandated roll out, as witnessed in Victoria, customer support for smart meters is shaped through the marketing of the smart meter services and the customer's explicit informed consent to a product choice that they see as reflecting benefit to themselves. If a product, or service, is forced upon a customer then the competitive nature of the market means that they will churn away to another provider. This is not possible in a distributor-led rollout where the distributor faces no risk of losing the customer.

Why retailers have not sought to undertake such rollouts in the past given the incentives that exist to do so

The barriers have been the regulation of manually read metering as a monopoly service provided by distributors and the bundling of metering charges in network charges.

At the inception of full retail contestability, regulating metering as a monopoly service was deemed to provide more efficient outcomes given the relative cost, volume and the local presence of distributors for small customers. However, exclusivity for the provision of metering services was originally introduced as a transitional measure to address issues of cost and complexity which would have arisen had competition for metering services been introduced simultaneously with full retail competition. It was anticipated at the time that exclusivity would expire at the end of the transitionary period because of the view that metering competition would facilitate innovation both in terms of the type of meter installed and the way in which meters were read.[2]

Despite most retail markets now being fully contestable, many jurisdictions have not acted to remove the artificial barriers that prevent retailers from providing small customers with competitive metering services. Jurisdictions have extended exclusivity provisions beyond the point where the retail market has become contestable and, most importantly, metering charges for manually read metering have remained bundled in network charges.[3]

The bundling of metering charges in network charges is a significant barrier to retailers rolling out competitive metering services, including smart metering. If a retailer had replaced a householder's manually read meter with a smart meter, the retailer would still need to pay the bundled network charge. In other words, the network charge would not be reduced as a result of the distributor's meter being removed from

[2] Essential Services Commission (Victoria), Essential Services Commission of South Australia, Independent Competition and Regulatory Commission (ACT), Independent Pricing and Regulatory Tribunal (NSW), Office of the Tasmanian Energy Regulator, Queensland Competition Authority, 2004 *Joint Jurisdictional Review of Metrology Procedures: Final Report*, p. 41

[3] It is worth noting that Essential Services Commission (Victoria) was the only state regulator to implement the recommendations of the *Joint Jurisdictional Review of Metrology Procedures* — that distributors should only have exclusivity for manually read metering and that metering charges be unbundled from network charges. However, the Victorian Government's decision to mandate a rollout of smart meters undermined the ESC's decision because retailers did not have time to take advantage of that decision before new regulatory barriers were created.

the premises and the retailer ends up paying for a service they no longer use. This materially impacts the business case retailers may have to rollout smart meters.

To address these regulatory failures, all remaining exclusivity provisions (including those in Victoria) must end and metering charges must be unbundled from network charges so that the cost of the existing meter can be identified and avoided if the customer chooses to take up a retailer's offer of smart metering services.[4]

How a market-driven rollout would work

To demonstrate how a market-driven smart meter rollout would work, we have set up some scenarios to show how smart meters can be managed in a competitive market.

In the scenarios, there is no government mandate to roll out smart meters — the decision to provide a householder with a smart meter is left to the competitive market to deliver through a market-driven rollout.[5]

Scenario 1: Suburban home without a smart meter

The *Householder* is a typical suburban residential customer who currently has a retail contract with *Retailer A*[6] for the supply of electricity. The home has a manually read meter with all appliances in and around the home being supplied through that meter.

To take advantage of the market-driven drivers set out above, *Retailer A* approves an internal business case to replace the *Householder's* manually read meter with a remotely read smart meter.[7] *Retailer A* engages with the following external providers:

- A *Meter Provider* to install the smart meter.
- A *Meter Data Provider* to manage the meter reading and deliver meter reads to the retailer, the LNSP and AEMO for settlement and billing purposes.

[4] One issue that policy makers will need to address in dealing with these regulatory failures is the imposition of exit fees by distributors for the removal of the existing meter. Exit fees should be aligned with the early termination fee principles established by the National Energy Consumer Framework where early termination fees can be no more than a reasonable estimate of costs resulting from early termination. In terms of early termination fees for metering assets, this should be no more that the depreciated value of the remaining life of the asset and not replacement cost as the distributor is not being required to replace the asset.

[5] This is the New Zealand model, comprising a retailer-led rollout within the context of a very highly competitive market.

[6] *Retailer A* is a fictitious Energy Retailer for the purpose of demonstrating the role and activities of a Retailer in this scenario

[7] For the purposes of these scenarios, the ERAA has assumed that it is the retailer that makes the decision that there is a benefit that can be obtained from rolling out smart meters. However, the market participant that takes this decision could also be a distributor, a meter provider or a third party service provider. For example, a distributor may wish to initiate a rollout of smart meters in its territory. The difference with a market-driven rollout is that the distributor would approach retailers in its area to manage and coordinate the rollout. This would include if a distributor wishes to replace an ageing accumulation meter with a smart meter — a distributor would need to engage with the retailer as the Responsible Person for the site to organise for this happen so that competition and innovation in smart metering is maintained.

The contract that *Retailer A* establishes with the *Meter Provider* and the *Meter Data Provider* requires the following:

- Both the *Meter Provider* and the *Meter Data Provider* retain accreditation with AEMO throughout the life of their contracts;
- The installed metering infrastructure and meter readings meet all technical and service level requirements in accordance with the National Electricity Rules (NER); and
- The *Meter Provider* and *Meter Data Provider* comply with any extra conditions that may be stipulated in their commercial contracts with *Retailer A*.

The *Meter Provider* carries out the meter change, allowing the *Meter Data Provider* commencement of remote meter reading and services as agreed under the commercial contract with *Retailer A*.

In this scenario, the *Householder* is still on their existing market contract with *Retailer A*, paying the same flat rate or two part tariff that they were paying prior to the meter change. However, the *Householder* benefits from additional services such as a sharp reduction in estimated reads (a primary driver of customer dissatisfaction), more timely billing and remote re-energisation and de-energisation, or perhaps the choice of an alternative flexible tariff facilitated by the new metering.

How has the meter change been paid for?

The costs to *Retailer A* of contracting with the *Meter Provider* to install the meter and the *Meter Data Provider* to read the meter will be offset to some extent (maybe even fully offset) by lower network charges that exclude distributor-provided metering and by the operational efficiencies from having the smart meter in place (as set out above in *Drivers of a market-driven rollout*). *Retailer A* may also factor in the additional earnings that it could make by selling the customer additional smart metering services.[8]

In rolling out a smart meter to the *Householder*, *Retailer A* will also naturally consider the competitive response of its rivals and the response of its customers. *Retailer A* will seek to provide the meter at least cost to the *Householder*. It would help the retailer's customer retention if a meter were provided without increasing costs to its customers. The driver — the need to maximise customer value or risk losing customers — is a key differentiator between a contestable retail market and the provision by a monopoly distributor

- *Retailer A's* decision to provide the *Householder* with a smart meter and the potential for the new smart meter services it can offer the *Householder* may pose a potential competitive threat to other retailers who may decide to undertake similar roll outs to their own customers, or start to offer new services that compete with *Retailer A* using the new smart meter. *Retailer A* will seek to undertake its roll out at least cost to the *Householder* as a protection against new competitive entry into the smart metering services market.
- Alternatively, *Retailer A* may have overstated its business case for smart meters and the *Householder* may not be as attracted to smart metering services as *Retailer A* anticipated. If *Retailer A* increases prices to the Householder to recover the cost of the smart meter but cannot retain the *Householder* through the sale of associated services, then there is a very high likelihood that *Retailer A* will lose that customer to another retailer.

[8] In developing a business case, a retailer will market test customers' willingness to pay for any new services and products the retailer may be able to offer, inclusive of any distributor benefits that the retailer may negotiate with the relevant distributor. If there is a positive willingness to pay, then this will assist the retailer in generating a positive business case for changing the metering arrangements in a premise.

The *Householder's* willingness to pay for smart metering services and the reactions of its competitors drives *Retailer A* to find the means to pay for the roll out while trying to minimise any cost increases for customers.

In summary, internal operational efficiencies combined with external competitive pressure are the drivers for retailers to minimise the costs of deploying smart meters. At the same time, the customer is better off because there are significant benefits available to the customer. For example, *Retailer A*, as a result of the smart meter deployment, can now routinely bill the householder on a monthly basis, and always with actual data – thus assisting the *Householder* with cash flow management, and greatly reducing the incidence and severity of "bill shock". Given that the *Householder* was previously only billed on a quarterly basis, and sometimes on estimated data, this could be a significant enhancement to their customer experience.

How does the customer get access to the additional services provided by smart metering?

With the smart meter in place, *Retailer A* has an incentive and the ability to offer the *Householder* a range of new services and products enabled by the smart meter. These new services and products could include In Home Displays, smart-phone or tablet apps, web portals, demand management and a range of other services that assist the *Householder* manage their energy bill.

To obtain these new services, the *Householder* consents to enter into a new market contract with *Retailer A* for the delivery of energy and access to a range of new services and products after having considered the optimal mix of services they want and the price they are prepared to pay for those additional services. Of course, the *Householder* may elect to purchase no additional services over and above their basic energy contract – the challenge for *Retailer A*, as with any retailer in any competitive market, is to develop a product and service offering that its customers will be willing to pay for.

Scenario 2: Suburban home with a smart meter but customer switches retailer

This scenario builds on Scenario 1 by having the *Householder* deciding to change retailer, some time after the initial retailer (*Retailer A*) has already provided a smart meter to the *Householder*. The assumptions in this scenario are as follows:

- There is no government mandate for a rollout of smart meters.
- As a result of Scenario 1, the *Householder* now has a smart meter on the house. The meter is owned by the existing *Meter Provider* and the services from the meter are provided by the *Meter Data Provider* to *Retailer A*. These arrangements are based on a contractual arrangement between these two parties.
- The *Householder* has a market contract with *Retailer A* for the supply of energy and perhaps a range of additional services that they have consented to through the use of the functionality provided from their smart meter (such as access to a web portal and some use of load control services).

After some time (perhaps a year) on the new market contract with *Retailer A*, the *Householder* decides that *Retailer B* is offering a better deal and exercises their right to switch retailers. At this point, one of the customer benefits of the smart meter becomes apparent — the smart meter with its remote and on-demand reading capability enables the transfer between retailers to take place very quickly. This is because the final read before the transfer occurs can be performed at any time: there is no need to arrange (and pay) for a special on-site read or for the customer to wait for the next scheduled manual read date.

Further, in this scenario, the existing smart meter at the property supports all the services that *Retailer B* has to offer and thus there is no need to churn the meter.

How does the market manage this situation?

To manage the metering arrangements at the *Householder's* premises, *Retailer B* establishes its own contract with the existing *Meter Provider* to retain the smart meter provided by the existing *Meter Provider*. Again, this contract will require the *Meter Provider* to comply with the requirements in the Rules and to meet all relevant technical and service level specifications. (Note that *Retailer B* may already have a contract with the existing *Meter Provider* for the service of other premises and thus no new contract need be established. Instead, the existing *Meter Provider* is providing and managing the meter on behalf of *Retailer B* rather than *Retailer A*). *Retailer B* thus takes on the cost of metering at the property from *Retailer A* so that, in effect, the meter and meter services contract has shifted from *Retailer A* to *Retailer B*.

Retailer B has an incentive **not** to replace a technically functioning meter already installed at the house, because *Retailer B* would incur additional costs from doing so.

- Passing this cost on to the *Householder*, with the associated inconvenience of a technically unnecessary meter change, would make *Retailer B's* offer to the *Householder* less attractive and the *Householder* may naturally decide to stay with *Retailer A*.
- Even if *Retailer B* could absorb the costs of installing another meter, it would not make good business practice to do so because the existing meter already has the functionality that the *Householder* wants to use. It is cheaper for *Retailer B* to enter into a contract with the existing *Meter Provider* rather than replace the meter.

In 2005, the Australian Competition and Consumer Commission (ACCC) recognised that concerns that retailers would need to churn meters as customers churned were overstated:

> *The ACCC considers that concerns that meters will be removed in circumstances where it is inefficient to do so may be overstated, and that avoiding metering churn is not of itself sufficient reason to continue the metering derogations. The ACCC further considers that such concerns assume that retailers will tend to replace meters, irrespective of whether this is a commercially beneficial decision. It is likely that a rational retailer (that does not wish to create barriers to switching) will only choose to replace meters when it is efficient to do so. … The ACCC considers that meter churn can also be a by-product of the adoption of innovative forms of metering and tariffs.*[9]

Scenario 3: Suburban home with a smart meter but customer switches retailer and churns meter

In this scenario, after a year with *Retailer B*, the *Householder* decides to switch retailers again. This time, the *Householder* wants to contract with *Retailer C* who has demonstrated to the *Householder* that it has a range of new products and services that *Retailer A* and *Retailer B* cannot provide, perhaps due to the technical limitations of the existing meter. *Retailer C* is seeking to gain a competitive advantage over *Retailer A* and *B* by innovating and developing new products and services that it believes will be of value to the customer and the customer will be willing to pay for.

However, to access these new services, *Retailer C* must replace the existing smart meter with a meter that supports the new services being offered.[10] This requires *Retailer C* to engage with an accredited Meter

---

[9] Australian Competition and Consumer Commission 2005 *Applications for Authorisation: Amendments to the National Electricity Code*, Victorian Metering Derogations, P. 26

[10] The ability to replace the meter for new services requested by consumers is important for innovation as customers move from a spectrum of being "uninformed" to "informed". Restricting flexibility in meter replacement will impede the market and constrain product and services development enabled by smart meter technology."

Provider that supports the new services the *Householder* wants. This could be the existing *Meter Provider* or another Meter Provider.

How does the market manage this?

- Now that Retailer B has lost the Householder, the contract with the existing Meter Provider will no longer apply. The existing Meter Provider does not lose any value from a stranded asset because meter providers incorporate the risk of stranding into the original prices that it agreed with Retailer B. It is also possible that Meter Provider may be able to re-use the asset in another premise, (e.g. another retailer may have won a new customer in a new housing estate and thus contracted with the Meter Provider to install the smart meter into the new customer's house).
- The cost of the new meter from Retailer C would be incorporated into the market contract to which the Householder would need to give explicit informed consent to enter into. Thus, the Householder must either be willing to pay for the additional functionality built into the new meter, or Retailer C must absorb these costs. If neither of these conditions holds, then the Householder has the option of remaining with Retailer B receiving the smart meter services the Householder was previously receiving (or indeed switch to a different retailer entirely). In this case, Retailer C will need to re-consider its proposition and business model because the market is telling Retailer C that customers are not willing to pay for its product – this is the reality of a competitive retail market.
- The cost of Retailer C's new meter would reflect the Meter Provider's view of the life of that meter. Thus the additional charge the Householder would pay would be an annualised cost of the meter. The Meter Provider would be likely to approach other retailers and market participants to promote its new meter, reduce the risk of it becoming stranded and improving its pricing and helping increase the take up of Retailer C's new offer requiring the meter. It is also possible that Retailer C may absorb at least some of this cost in order to acquire the new customer and make their product more appealing in the market place. This is a marketing and pricing decision for Retailer C.

What happens if the Householder decides it no longer wants the additional services provided by Retailer C and wants to switch back to the product it was previously on with Retailer B?

In this scenario, it would again make no economic sense for *Retailer B* to want to churn the meter unnecessarily.[11] The sophisticated metering that is at the premises is more than capable of delivering the services that customer now wants. Thus, as with scenario 2, *Retailer B* will contract with the relevant meter provider and meter data provider to meet its meter provision and data reading responsibilities under the Rules.

[11] The market could also accommodate a situation where the customer did not want to continue paying the annualised amortised cost of the smarter meter installed by *Retailer C* when the *Householder* switched back to *Retailer B*. *Retailer B* could organise with its *Meter Provider* to replace the smarter meter with the smart meter that was previously at the property. Thus, the customer would likely pay a lower amortised cost for the meter reflecting the lower technical capability of the metering device. However, as discussed later in this paper, the ERAA proposes that retailers agree to a no-reversion policy where this makes economic sense.

Scenario 4: Suburban home with a smart meter and services provided by a third party supplier

In this Scenario, the *Householder* has a market contract with *Retailer C* but has heard about the services offered by *Electric Vehicles*. *Electric Vehicles* is able to offer the *Householder* an electrical vehicle product and associated services. The *Householder* has a smart meter and enters into a contract for the services supplied by *Electric Vehicles*.

It is important to note that there is no need for any over-engineered 'solutions' to the metering arrangements at the house — there is no need for a second meter, a child meter or second NMI at the premises. As a result, the costs to the *Householder* of obtaining services from third parties such as *Electric Vehicles* is lower than if new or additional metering arrangements were put in place. This in turn can widen the appeal of these sorts of services to the customers.

How does the market manage this situation?

- As *Retailer C* is still supplying energy and smart metering services to the Householder, the contract between *Retailer C* and the *Householder* still applies
- The contract between *Retailer C* and the existing *Meter Provider* still applies
- The multiple registers contained in *Retailer C's* smart meter already installed at the premises allow different loads to be measured separately and billed separately:[12]
    - Register 1 is used to measure the general load the *Householder* uses and is billed by *Retailer C*.
    - Register 2 is used to measure the load going to the electric vehicle and is billed by *Electric Vehicles*.

  Thus the *Householder* receives two bills — one from *Retailer C* and one from *Electric Vehicles*.
- *Electric Vehicles* establishes a meter services contract with the *Meter Data Provider* for the site to deliver reads for settlement and billing purposes

This scenario can be applied in many ways. For example, the customer could have a contract for energy supply *and* a contract for electric vehicles with *Retailer C*. What is important in this scenario is that the smart metering technology is not a barrier. In fact, the smart meter is an enabler of new products and services and lifestyle choices for the *Householder*.

However, there is a requirement to develop a third party framework to ensure that there are sufficient customer protection arrangements in place to protect customers in their dealings with third party service suppliers. This could include some form of licensing/authorisation of these third party suppliers to ensure that there is adequate enforcement arrangements of the obligations to customers that these suppliers have, just as there are for electricity retailers.

Appropriate arrangements may also be required to ensure the financial integrity of the electricity market and that the operations of third parties do not undermine the financial resilience of the market.

[12] A minor change to network billing arrangements will be required to accommodate multiple registers in the meter.

Examples of market-driven rollouts of smart meters

There are examples of successful market-driven roll outs of smart meters, such as New Zealand where a market-driven roll out of smart meters to smaller customers, including residential and small business, has occurred.

In New Zealand, Meridian (the largest retailer in the South Island) took the lead in rolling out smart meters to its retail customers in the Canterbury area. Meridian's business case was based on achieving the savings from unaccounted for energy loss, manual meter read, meter leasing, automated disconnection/ reconnection, reduced back office labour, reduced call centre volume from fewer errors and reduced non-technical losses. These savings equated to the costs of the new smart metering installation.[13]

In response to Meridian's initiative, other retailers have also commenced rolling out smart meters.

Rather than mandating a roll out, the Electricity Authority of New Zealand has focussed on ensuring that there is open and non-discriminatory third party access to metering services so that there are no barriers to competition whilst attempting to preserve the conditions for innovation among meter providers and retailers.[14]

There were initial implementation issues in NZ's market-driven rollout, primarily due to retailers rolling out meters before an appropriate supportive regulatory framework was in place. NZ found that, as has occurred under government mandates for a distributor-led rollout of smart meters in Australia, it is important that an appropriate legislative and regulatory framework is in place to support a market-driven rollout of smart meters.

Further information on New Zealand is found in Box 1.

Box 1: Smart metering in New Zealand

1. The New Zealand Authority determined in 2012 that the metering services market in NZ is "workably competitive", with multiple retailers, distributors and other parties obtaining metering services from competing metering owners/operators.
2. Regulatory intervention would likely hamper the efficient development and operation of the metering services market by diminishing the commercial and competitive incentives for efficient provision and procurement of metering data and services.
3. Commercial negotiations currently represent the most efficient approach for participants in the metering services market to obtain access to metering data and services for the long-term benefit of consumers.
4. Advanced Metering Services (AMS), owned by Vector, is the largest metering service provider in New Zealand, with about 42 per cent of accumulation and advanced meters. AMS is supplying 500,000 advanced meters for Genesis Energy, with about 250,000 advanced meters installed under that contract to date.
5. Meridian Energy, Mercury Energy, Trustpower and Contact obtain metering services in-house, from their own subsidiary Metering Equipment Provider (MEP) or from other MEPs. Contact agreed in late 2011 to use AMS to supply some metering services, and AMS is to deploy about 150,000 advanced meters for Contact in the North Island by 2014, starting in May 2012.
6. The Authority considers that a workably competitive market can involve duplication. MEPs that have made a poor technology choice or are unwilling to continue investing in a metering fleet should not be protected by regulation from being duplicated or displaced.

[13] VaasaETT and EEE 2010 Country Reports: New Zealand

[14] *ibid*

7. The key requirement (or barrier) for entry by a firm wanting to be an MEP or to access metering data appears to be obtaining the agreement of the consumer to install metering equipment (without interfering with other metering equipment).
8. Retailers have a clear interest in maintaining a competitive metering services market because retailers rely on MEPs to provide a good service so as to deliver the range and quality of service expected by their customers. Consequently, retailers have commercial incentives to make strategic procurement decisions so that they retain a choice of service provider. If service levels aren't maintained than an alternative MEP can be sourced. This decision relies on there being an alternative MEP able to offer the desired service at a price the purchaser is willing to pay.

Reference: http://www.ea.govt.nz

Facilitating a market-driven smart meter roll out

As noted, a market-driven rollout of smart metering requires an appropriate regulatory framework is in place to support that rollout. A number of factors need review including:

- The unbundling of metering charges from network charges so that retailers and customers are not required to pay twice for metering services;
- The discontinuation of any legislative barriers, such as metering derogations, that give distributors exclusivity over the metering arrangements for certain customer types;
- A no-reversion policy must be established which could be an industry agreement that metering installed at a premise is not removed in favour of less technically capable metering;
- Appropriate ring-fencing arrangements around participants in the market (distributors-retailers-meter providers) so that cross-subsidisation between participants does not undermine the competitive market;
- Open access arrangements that allow multiple parties to concurrently offer services across a single party's metering infrastructure;
- Appropriate B2B arrangements to facilitate the new metering arrangements; and
- Customer protection arrangements that support customer switching in a competitive metering market and their engagement with third party service providers.

The ERAA supports the view that the existing type 4 metering framework and metrology provide a sound foundation to support a market-driven smart meter rollout. This framework provides a minimum functionality specification and outlines the minimum service levels that the smart meters would need to meet.

About the Energy Retailers' Association of Australia

The ERAA is the peak industry body which represents the core of Australia's energy retail organisations. Membership is comprised of businesses operating in the electricity and gas markets in most Australian states and territories. Collectively, our members provide electricity to more than 98 per cent of customers in the national energy markets and are the first point of contact for customers of both electricity and gas.

Third party and distributor sale of energy management services

ERAA smart meter Working Paper 5

Energy Retailers Association of Australia
Suite 3, Level 5, 189 Kent Street Sydney NSW 2000
T (02) 8241 1800 **E** info@eraa.com.au
www.eraa.com.au

eraa
Energy Retailers Association of Australia

Third party and distributor sale of energy management services

Energy Retailers Association of Australia (ERAA) smart meter Working Paper 5

Smart meters and associated technologies have opened up perceived opportunities to businesses seeking to enter the household energy market, and as a result, several recent policy consultations and discussions have touched on the role of third parties in the provision of energy services to small customers. It is positive that these discussions are occurring; however they appear to be based on particular products or service provider business models rather than appropriate principles for a new energy service approach. The policy discussions thus continue in an inefficient and piecemeal fashion. This has led to significant uncertainty, to the point where even previously understood concepts such as the separation of retailer and distribution businesses have become contested.

The ERAA does not oppose the presence of third parties in the retail space; rather the problem is that third parties are by definition outside the traditional service agreement between retailers and customers, and so there is no way to capture their service offerings consistently. The service offerings are also part of a new service paradigm that the current regulatory framework did not explicitly contemplate.

How do we conceptualise third parties and distributors entering the competitive home energy market and how do we provide for a competitively neutral environment and a consistent and fair consumer experience? This paper explores these issues, arguing that all participants selling certain energy services in the competitive market should adhere to the same consumer protection regime and distributors selling these services should be appropriately ring-fenced from their regulated network businesses.

Policy objectives for service provision enabled by smart meters

The primary objective for retail energy policy in general, and smart meter policy in particular, is to have cost-effective consumer outcomes which grant consumers choice of product and service provider but also do not force these choices on an unwilling or as-yet-unready consumer population. Smart meters and associated products should be seen as enabling consumer choice of time-sensitive energy products and services (an unmet market), and providing opportunities to engage with the market.

It is particularly important that relationships between service providers are seen as seamless and consistent and do not require significant further investment from a customer when they change their basic product and service preferences. Customer access to consumer protections should also be consistent, which means that for certain energy services all service providers have similar, if not the same, obligations.

Similarly, policy objectives should require a level playing field for providers of energy services. It will not be beneficial to consumers to grant rights to monopoly service providers that are not extended to retail competitors, and nor it is reasonable to require higher service standards and stronger obligations from some service providers and not from others providing the same services.

The current state of play

Without changes to the existing consumer protection frameworks to account for third party activities, third parties will be entering consumer premises to retail energy services with no specific minimum standards of behaviour other than the Australian Consumer Law. Some may argue that this is appropriate, but it is worth considering the products on offer – these are products that can result in disconnection of supply, billing complexity and marketing contracts for changes to an essential service. These are the elements of energy supply that created the need for a comprehensive consumer protection framework for retail energy to date.

Policy debates to date have often characterised the new opportunities that come from smart technologies (and electric vehicles) as potentially requiring market rule changes to allow for competition at every level. Minimum standards, licensing or authorisation have been subsumed as secondary matters, if they are raised at all. There has been some effort to fit the new players and new products into the established retailer-customer contract: some parties have argued that third parties in the competitive market should be seen as agents of the retailer or customer (or customers themselves). Third parties may represent themselves as agents of consumers to access customer data, or they may consider themselves as the customer in a market sense and then on-sell to end users.

However, stretching existing definitions to fit new entities is problematic: definitions are fluid and the entity that is the agent of the customer today may tomorrow offer energy retail products in direct competition with licensed/authorised energy retailers. On-selling could mean that consumers are not covered by consumer protections unless licensing/authorisation frameworks and exemptions regimes explicitly cover the service provision in question. We have seen the above already suggested in the market to date and no doubt there are many other possibilities. The problem is that this lack of clarity risks undermining the credibility of the consumer protection framework, as consumers will find that they have no recourse against their 'agents' when things go wrong and they will find that their retailers cannot solve third party problems. It also jeopardises competitive neutrality between service providers, given that retailers already exist and are obliged to comply with a range of customer service standards in the competitive retail market.

If the consumer protection regime is not made consistent across all providers of certain energy services we can anticipate significant consumer confusion, particularly as third parties will have different and complex business models and no consistency in how they bill or communicate with the consumer. The methods that these entities use to recover debt, to manage insolvency and to address complaints will similarly be left open. As uptake of third party energy services increases, the costs of managing this environment will be felt by existing market participants who will be referred to when there are problems, and by regulatory, policy and political staff across the jurisdictions who will similarly have to solve consumer problems with no common understanding of how third parties can or should engage with the market and no clear means of meeting consumer expectations.

ERAA members believe that there is a need for a comprehensive review of third party responsibilities to consumers and an examination of how third parties can be brought under consumer protection regimes – including the National Energy Consumer Framework (NECF) – efficiently and effectively. This should involve a clearer definition in regulation of what retailing energy is, as discussed below. It also requires the NECF and other state licensing frameworks to be amended to provide specific authorisations for certain service provider types. The key questions that should drive how we assess third parties relate to how the end user sees the service relationship, what rights they would expect compared to basic energy use, and how the risks of multi-party service provisions can be best managed and minimised.

ERAA position

The ERAA proposes that the overriding consumer protection principle should remain, which is that regulatory frameworks should reflect community expectations about how consumers are supplied with an essential service. In our view, "sale of electricity" (or energy more broadly) is no longer an adequate test of whether retail licensing or authorisation is required. The concept should instead shift to sale of *energy services*, which includes retailing energy *and* energy management service such as interruptions to energy supply (under direct load control or supply capacity control, for example), ongoing use of a consumer's meter data, as well as directly billing the consumer under contract.

More precisely, third party and distributor energy management service offerings should be judged on certain criteria, from the starting point that the third party/distributor will have access to a customer's consumption data. The criteria should be based on the core aspects of why retail contracts are currently regulated, such as the following:

1. If the product or service is marketed in competition with other services, and specific information needs to be provided at the point of sale to ensure informed consent.
2. If the consumer receives ongoing service under contract.
3. If supply to the property/appliance can be controlled or disconnected, including by charging technology.
4. If the consumer is billed or compensated directly from the service provider.

If the above activities occur in conjunction we believe that some form of retail licence or NECF authorisation is required. To avoid doubt, this means that distributors also would not be able to undertake these activities without such an authorisation, which requires ring-fencing between the retail activities and any monopoly service provision with regulated revenue streams. As a matter of competitive neutrality, distributors should not be competing in the retail space using regulated revenue; not only does this reflect competitive advantage compared with retailers but it is considered to be unlawful by the AER.[1]

The decision model in Figure 1 on the following page is a useful starting point to conceptualise the issues addressed above, and for completeness we have included criteria to assess sale of energy as well, and also incorporated the policy proposal from ERAA's *Working Paper 4* that all service providers should be subject to the National Privacy Principles (NPPs). Once this approach has been agreed it will then be important to assess the need for the current retail licensing schemes to be changed to provide for a more specific licence type, and for NECF in particular to be modified for special authorisations to be granted rather than the current one-size-fits-all version.

[1] See page 85 of Accenture (2011) *IHD Inclusion into ESI scheme: Final Report*, for Department of Primary Industries, Victoria, December.

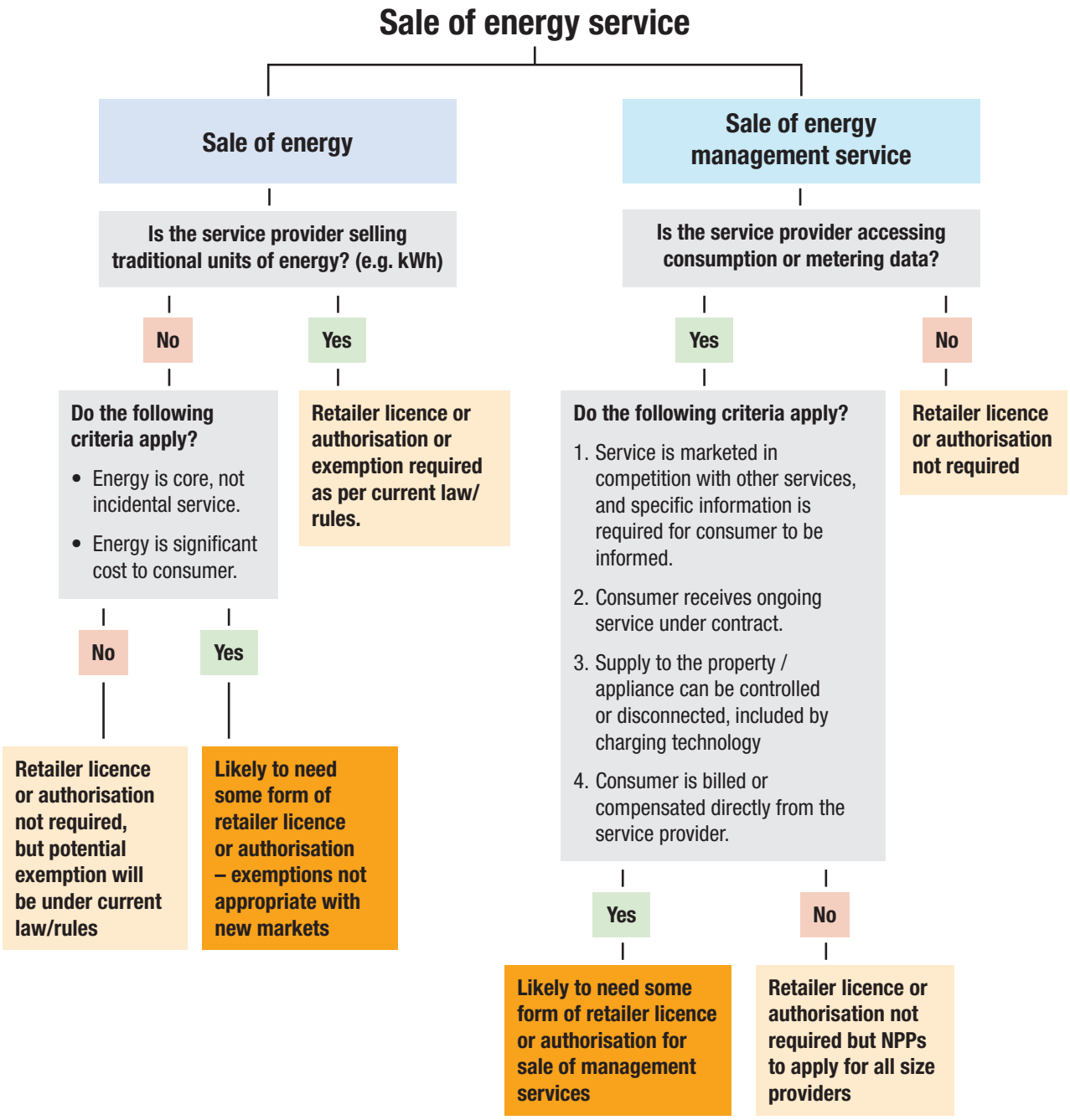


Figure 1: A proposed conceptual framework for new retail authorisations

About the Energy Retailers' Association of Australia

The ERAA is the peak industry body which represents the core of Australia's energy retail organisations. Membership is comprised of businesses operating in the electricity and gas markets in most Australian states and territories. Collectively, our members provide electricity to more than 98 per cent of customers in the national energy markets and are the first point of contact for customers of both electricity and gas.