ENA

AEMC Public forum, competition in metering

Network regulatory arrangements and access to Metering Coordinator services

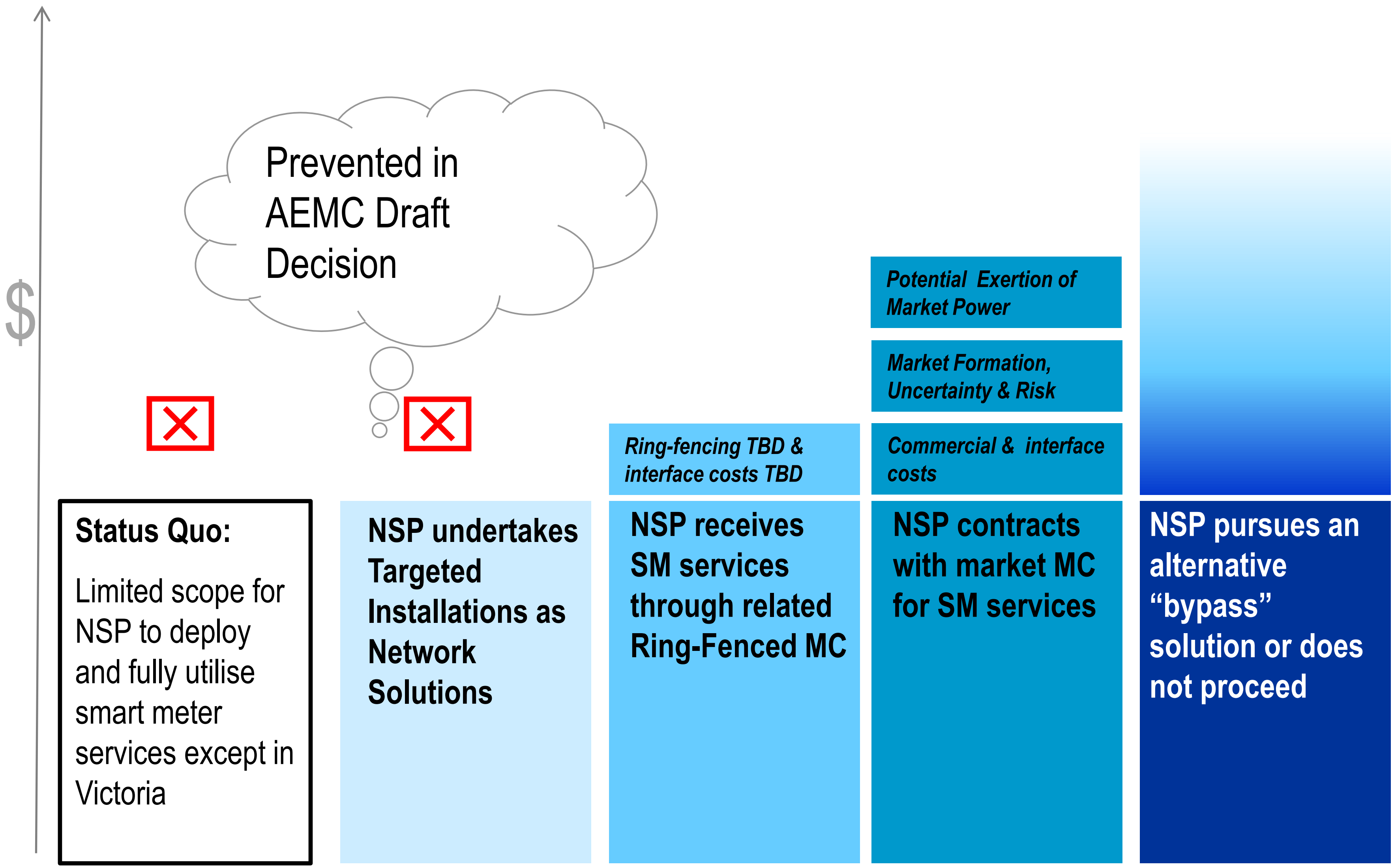
JOHN BRADLEY, CEO ENA

30 APRIL 2015

Overview

1. Missed opportunity in Network Solutions
2. Potential for increased costs in Ring-Fencing
3. Risks to Efficient Access to MC Services
4. Need for Light Handed Regulatory Oversight
5. Cost Recovery/ Exit Fees

Changing models of SM services to NSPs



Missed Opportunity in Network Solutions:

- ENA supports **NSPs being able to install metering as part of regulated business solutions** where prudent and efficient to do so.
  - Mitigates investment risk through continuity of service and cost;
  - Efficient outcomes overseen by Regulator;
  - RIT-D test would require LNSPs to use market where more efficient.
- Also supported by non-network stakeholders (PIAC and ATA)
- **Important in transition until market develops** to provide confidence in continuity of services and cost of access.
- **Draft Determination rejects this option:**
  - Whatever benefits to new entrants in the metering market **this removes an alternative least cost outcome for network customers**.
  - **Pre-emptive approach** restricts network deployment now, rather than permitting and reviewing access outcomes in the market over 3 years.
- **Draft Rule also does not appear to correct current Rule impediments to NSP right to remotely-read capable devices**
  - (Rule 7.8.9) except in operational difficulty.

Increased Costs in NSP Ring-Fencing:

> Unnecessary ring-fencing obligations on NSPs would introduce **interface and administrative costs** borne by customers.

> **DNSPs subject to existing ring-fencing constraints**
- Jurisdictional ring-fencing guidelines
- AER approved Cost Allocation Method
- Annual Regulatory Information Notices

> Draft Decision defers to **future National Ring-fencing Guidelines by AER (2016)**
- AER has stated an explicit view proposing legal separation of Network MCs
- Better approach would be to assess sufficiency of current framework

> Draft Determination asks AER to consider **reduced requirement where NSP is initial MC for Type 5/6 - not Type 4** locations without competition.

> **Final Determination should address these risks to least-cost outcomes for network customers**

Risks to Access to MC Services:

> Draft Determination recognises **Potential to exploit Market Power:**

> *"In the absence of competition, the Metering Coordinator will seek to charge as much as it can for its services sought by a DNSP. This will be at a level just below what it considers the next best alternative is for the DNSP."*

> Networks are exposed to **"Hold Out" risk** in long-term contracts for Meter Services
  - Arises when Network Investments are sunk and dependent on continuity of MC services
  - Regulated NSPs unable to address Hold Out risk as firms are in competitive markets.
  - Creates barriers to efficient long-term contracting for value-added services by NSPs.

> The regime also creates **clear incentives for Retailer-related MCs to frustrate access to other market participants** to influence outcomes in retail, wholesale or energy services markets.

Network Counterparty cannot mitigate risk

> To benefit customers, the New Framework must enable significant, long-lived Network Solutions which rely on continuous metering services.

- eg. DSP load control program supporting deferred network augmentation
- eg. Significant investments in network control and management platforms.

> Potential for MC (or meter) churn is beyond NSPs control.

> **How would an NSP manage key continuity risks, including that:**

The Asset remains capable of providing the service in the same format…	• Narrow MSS, Network Services are not Primary • No "Non-Reversion" Clause • Performance Levels?
A new MC would not be **willing…**	• Only Scheduled Meter Reads must be provided by the Metering Coordinator
The MC would not increase the cost once NSP investments are sunk…	• NSP does not choose MC • No light-handed economic regulation

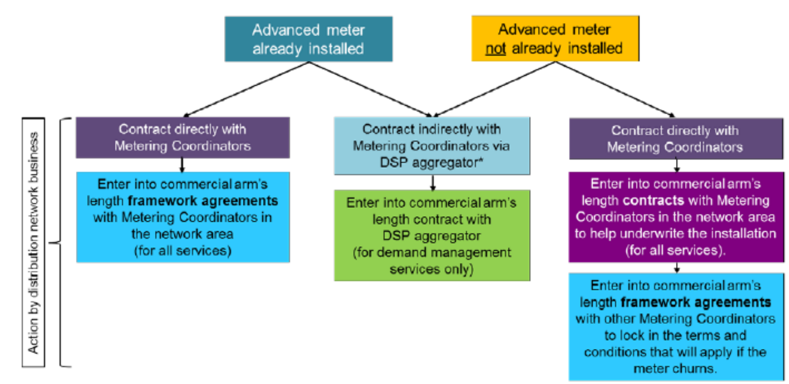
Low Confidence in 2 Proposed Solutions

1) **AEMC suggests Framework Agreements are common Overseas**
   - **No comparable Framework Agreements identified in UK or New Zealand?**
   - **How long will it take to produce stable, binding Framework Agreements** in a developing MC market of diverse, competing new entrants (and owners) for defined services in various penetration scenarios?
   - Will framework agreements ever bind an incoming MC to **commercial terms** provided to an incumbent MC customer?

2) **DSP Aggregators**
   - Not clear that DSP aggregators will be better placed to mitigate these long-term risks than NSPs as a counter-party.
   - Prominent DSP aggregators hold equivalent concerns about market power of the MC.

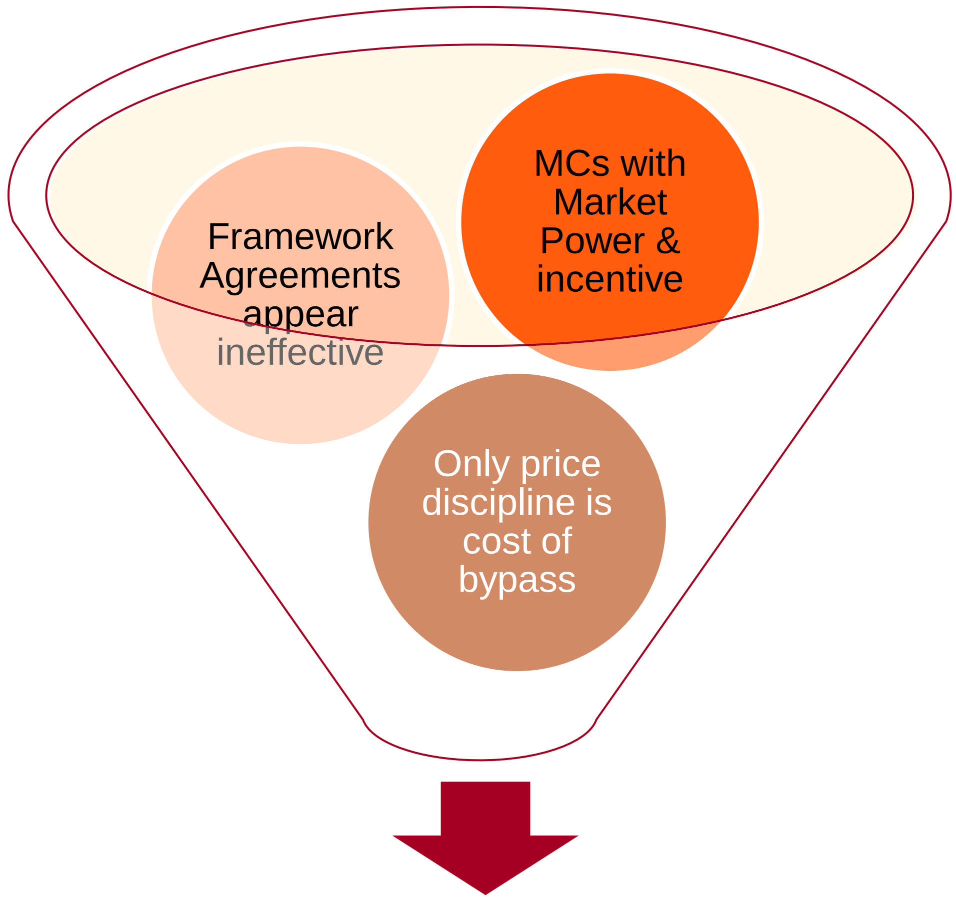
Emergence of Standardised Transactions for secondary / value-added services impeded if narrowly defined MSS, SMP.

Figure D4.1 Alternative ways a DNSP could access network-related services and functions



Note that the Metering Coordinator may be retailer owned, a third party or the distribution network business's unregulated Metering Coordinator business.
** In this case it will be the DSP aggregator that contracts directly with the Metering Coordinators to help underwrite the installation.*

Need for Light-Handed Regulatory oversight



Regulatory Oversight required

An Asymmetric approach to the new market…

> **Negotiate & Arbitrate Model**

- Rejected in Draft Decision to avoid **investment uncertainty**:
- An Arbitrator may have imperfect information and require an MC "
  *…to provide services at a price that is lower than the level of charges that it had based its investment on. **This investment risk is particularly concerning given the relatively long life of the meters and associated investments**."*
- Consistent approach to investment certainty needed by NSPs as MCs.

> **Price Monitoring:**

- Rejected in Draft Decision concludes *"potentially significant administrative and regulatory burden"* due to diverse prices across different providers and factors.
- Simply requires publication of Prices, T&Cs on offer.
- Final Decision should not concede market outcomes will be opaque or beyond analysis
- If so, how will the recommended review of state of competition in the metering services market occur after 3 years?

> **Fixing the Problem:**

1. At minimum, Price Transparency; some Dispute Resolution process and penalty framework for non-performance; **OR**
2. Regulatory protection for MC contracts enduring beyond MC churn.

Cost Recovery and Exit Fees…

> Cost recovery, via Exit Fees, will be a key determinant of:
  - **Appropriate economic incentives**;
  - Drivers of the level of **market activity and meter churn**;
  - Drivers of **cross-subsidy outcomes** between customers.

> ENA supports intent of AER's recently revised approach
  - **Preserving certainty over the recovery of residual costs** reflecting the basis on which past investment occurred.
  - **Minimisation of Cross-Subsidies**
  - **Cost Reflective Price driving decisions** at time of Meter Churn – consistent with NEO.

> Not clear what happens to any residual un-recovered capital in the next regulatory period, if AER no longer classifies these services as direct control?

> **Final Decision & Rule should put these issues beyond doubt** because:
  - Trade-offs in policy objectives in market development are a role for the AEMC;
  - Fundamental market design feature should not be left unresolved when determining if the Rule is superior to status quo.
  - Clarity should be required from the Rule-maker; noting AER's initial approach in NSW was revised due to rule constraints.