

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

**Joint submission by the
Victorian Electricity Distribution Businesses to the
AEMC's Consultation Paper**

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Executive Summary

The Victorian DBs¹ welcome the opportunity to lodge this submission to the AEMC's Consultation Paper² in relation to a Rule change proposal submitted by the Minister for Energy and Resources (Victoria). If adopted, the Rule change would extend the current Victorian metering derogation, which is due to expire on 31 December 2013.

Victoria is the only State that has mandated a roll out of smart (AMI) meters to small customers. The roll out program approach was validated by an independent cost benefit analysis undertaken by Deloitte³ on behalf of the current Victorian Government. The analysis showed that the net economic benefit would be maximised if the Victorian DBs continued to undertake the AMI roll out.

To facilitate the distributor-led mandated roll out, in 2009 the AEMC accepted a derogation that provides the Victorian DBs with exclusivity in the provision of AMI meters to small customers. The roll out program is currently nearing completion and the original derogation will lapse on 31 December 2013. If the derogation were allowed to lapse, retailers would become responsible for the provision of AMI meters⁴ and metering competition would commence.

The Victorian DBs are able to recover the costs of the AMI roll out through an Order in Council⁵, which is unaffected by the metering derogation. The Order in Council provides for an exit fee to be payable by a retailer if an existing AMI meter is replaced by a retailer-provided meter. Therefore, the Victorian DBs concerns regarding the introduction of metering competition are not driven by questions of cost recovery.

Instead, the Victorian DBs' concern is that customers will be exposed to safety and service performance risks if competition is introduced in a disorderly and ill-prepared manner. Such outcomes will reflect badly on the industry and damage the long term prospects of introducing other changes, such as flexible pricing, which will deliver genuine benefits to customers. It is evident that the Minister shares these concerns in his Rule change proposal.

The Minister's Rule change proposal has identified a number of specific difficulties that arise if metering competition in Victoria were introduced from 31 December 2013. There are a number of areas of concern including that:

- steps would need to be taken urgently to ensure that customer and network safety are not jeopardised by retailers remotely de-energising or re-energising customers;

¹ CitiPower and Powercor Australia, United Energy, SP AusNet and Jemena Electricity Networks.

² AEMC, National Electricity Amendment (Victorian Jurisdictional Derogation, Advanced Metering Infrastructure) Rule 2013, Consultation Paper, 4 July 2013.

³ Deloitte, Advanced metering infrastructure cost benefit analysis: Final Report for Department of Treasury and Finance, 2 August 2011, page 63.

⁴ Chapter 7 of the Rules provides for retailers to be responsible for remotely read interval meters unless the retailer requests the Local Network Service Provider to assume that role.

⁵ Order in Council made on 12 November 2007 under sections 15A and 46D of the Electricity Industry Act 2000, and as amended subsequently amended.

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- business and regulatory solutions would be required to ensure that supply restoration following an outage would not be affected by meter ownership;
 - barriers to retail competition could be created if consumers have to change meters when they change retailers;
 - customer protection arrangements would need to be changed to accommodate metering competition while protecting consumers' interests; and
 - a campaign to educate customers on the benefits of metering competition would be required, with care taken to minimise confusion with other initiatives, such as the proposed introduction of flexible pricing.

As noted above, a particular matter of concern is the potentially adverse impact on retail competition. Customers may be 'locked in' to retail contracts that prevent retailer churn unless the meter also churns. The Victorian DBs note that the AEMC has proposed a national solution to this issue by creating the role of Metering Coordinator and a regulated standardised metering contract which allows novation. However, the regulatory framework to support this role has not yet been developed.

Consumer groups are also concerned about introducing competition in the provision of AMI meters without sufficient industry preparation or customer education. Victorian customers have paid for AMI meters that are capable of delivering network benefits. However, these network benefits will be lost or significantly diminished until measures are put in place to maintain this service capability irrespective of meter ownership.

The Commission's task is to assess whether the National Electricity Objective is more likely to be promoted by allowing the derogation to lapse or by extending it to December 2016, as requested by the Minister. Some retailers believe that introducing competition will, by its nature, deliver better outcomes for customers and more innovative energy solutions. According to these retailers, bringing forward competition to the earliest possible date is therefore consistent with promoting the National Electricity Objective.

The Victorian DBs do not share the conviction that competition at the earliest possible time will necessarily maximise economic efficiency. Instead, the Victorian DBs recognise that competition can only deliver genuine benefits to customers if business systems and processes are put in place to support competition. Without these systems and processes, introducing competition exposes the industry and its customers to unacceptable safety and service performance risks. It would also lead to inefficiencies and additional costs as the Victorian industry unilaterally took steps to manage these issues.

In particular, if the derogation were allowed to lapse on 31 December 2013, the national framework for metering competition would still be in the early stages of development. As a practical matter, the Victorian industry would therefore face a choice:

1. Design and implement the business systems and processes as soon as possible to support metering competition in Victoria independently of the national arrangements; or

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2. Delay introducing the systems and processes in Victoria until the arrangements are settled at a national level, and in the interim, operate with current systems and processes.

The first of these options will lead to a duplication of effort and require solutions to be developed 'on the run' as the necessary systems and processes to support competition cannot be in place by 31 December 2013. The second of these options will avoid the inefficient costs associated with the first option, but exposes industry and customers to an increasing risk of chaotic and undesirable outcomes, and the costs of resolving customer issues.

The Victorian DBs consider that it is much more efficient to design and implement nationally agreed arrangements in a methodological and structured manner, rather than develop 'band-aid' solutions. The Victorian DBs therefore support the Minister's rule change proposal to extend the derogation for a further transitional period.

The Victorian DBs also consider that it is important to have a clear communication campaign for customers in relation to metering competition and choices so they are well informed. It is important to ensure that customers are making an informed choice and move onto the national meter contract arrangements and associated consumer benefits in an orderly manner and from one starting point. This will allow a simpler message to customers and an easier transition.

The Victorian DBs support the Minister's proposed derogation and will continue to work constructively with the Victorian DPI and industry working groups to satisfy the timeframes envisaged by the Minister.

1 Background

The Australian Energy Market Commission (the Commission) has published a Consultation Paper⁶ in relation to a Rule change proposal submitted by the Honourable Nicholas Kotsiras MP, Minister for Energy and Resources (Victoria). The Rule change proposal is to extend the Victorian metering derogation, which is due to expire on 31 December 2013, for a transitional period.

The Victorian DBs (CitiPower and Powercor Australia, United Energy, SP AusNet and Jemena Electricity Networks) welcome this opportunity to respond to the Commission's Consultation Paper.

The existing derogation, which is set out in rule 9.9B, was put in place to facilitate the universal rollout of AMI meters in Victoria. Under the derogation the Victorian DBs have exclusive responsibility for provision of metering services to small Victorian electricity customers. Under these arrangements, retailers⁷ are prevented from providing these metering services. As already noted, the existing derogation is due to expire on 31 December 2013.

If the derogation were not extended, the national metering rules would come into force in Victoria from 1 January 2014. As a consequence, competition in the provision of AMI metering services would be introduced with immediate effect from that date. The Minister's Rule change proposal identifies a number of adverse consequences if the derogation were allowed to lapse:

- The industry costs would be significant, and would include the inefficient duplication in Victoria of a national process for the introduction of competition in the provision of metering services, which is currently in the early stages of development.
- There would be a potential loss of benefits associated with the Victorian AMI meter rollout program.
- Barriers to retail competition could be created if consumers have to change meters when they change retailers.
- There would be potential adverse impacts on reliability of supply.
- There would be a lack of adequate customer protection arrangements.
- Introducing metering competition at the same time as introducing flexible pricing could create confusion for consumers.

In broad terms, the adverse consequences identified by the Minister arise because:

- The regulatory framework, business systems and processes necessary to support competition in the provision of AMI metering services in Victoria have not been developed. Allowing competition to proceed without these arrangements in

⁶ AEMC, National Electricity Amendment (Victorian Jurisdictional Derogation, Advanced Metering Infrastructure) Rule 2013, Consultation Paper, 4 July 2013.

⁷ In this paper 'retailer' refers to their role as the Responsible Person and therefore includes their appointed service provision agents.

place exposes customers and the industry to unacceptable performance risks, including in relation to safety.

- A national program to introduce competition in the provision of metering services is currently being developed. As already noted, it would be costly and inefficient to introduce Victorian-specific arrangements in parallel with the national arrangements.

In considering the Minister's Rule change proposal, the Commission explains that it will assess the costs, benefits and efficiency impacts of the following alternative options⁸:

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

The Minister's Rule change proposal essentially concludes that there are significant costs and risks associated with Option A, but immaterial benefits. In particular, the Minister doubts whether there is any incremental benefit to Victorian customers if competition were introduced in advance of the national arrangements being settled. On the basis of the Minister's assessment, Option B is strongly preferred because it avoids the significant costs and risks associated with Option A, and only foregoes the immaterial benefits of introducing competition 2 or 3 years sooner.

As explained in this submission, the Victorian DBs agree with the Minister's assessment of the competing options and strongly support his proposed Rule change.

Before discussing these issues in detail, it is worth noting that the Minister's position has been informed by detailed consultation with the industry and consumer representatives. As part of that consultation exercise, the Victorian Department of Primary Industries identified 9 gaps in the industry's readiness for competition in the provision of AMI meters⁹:

1. Arrangements to enable remote re-energisation and de-energisation services to be provided in respect of retailer-provided AMI meters.
2. Arrangements to ensure efficient restoration of customer supply where the supply interruption involves faults with retailer-provided AMI meters.
3. Arrangements to facilitate distributor access to meter services and data outputs from retailer-provided AMI meters to realise AMI-enabled network service improvements.

⁸ AEMC, National Electricity Amendment (Victorian Jurisdictional Derogation, Advanced Metering Infrastructure) Rule 2013, Consultation Paper, 4 July 2013, page 5.

⁹ Department of Primary Industries, Transitional arrangements for the expiry of the Victorian AMI Derogation – Consultation Paper.

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4. Development of a means to distinguish AMI meters installed as type 4 meters in MSATS from type 4 meters that are not AMI meters.
 5. Arrangements to minimise meter churn in respect of retailer-provided AMI meters.
 6. Clarifying that retailer-provided AMI meters must comply with the Victorian Minimum AMI Functionality Specification.
 7. Ensuring that the Victorian Minimum AMI Service Levels Specification applies to retailer-provided AMI meters.
 8. New connections framework that provides an efficient means of determining the party responsible for metering.
 9. Clarifying that metering installed for small customers must be AMI meters.

It is accepted by all stakeholders that gaps exist in terms of Victoria's readiness for competition in the provision of metering services for small customers. The Victorian DBs' experience is that the industry-wide processes required to address these gaps are likely to be more complex and time-consuming than expected. It is therefore imprudent to gloss over potential issues or assume that solutions can be readily agreed and implemented. The Victorian DBs' view is that inevitably additional gaps and issues will be identified as the industry works through design solutions and implementation options.

As explained in this submission, the Victorian DBs' consider the most efficient approach is to resolve these readiness gaps through a single national process before competition is allowed to commence. The alternative approach of developing Victorian-specific solutions 'on the run' with competition already underway will not promote the long term interests of customers as required by the National Electricity Objective.

Before turning to the Victorian DBs' detailed assessment of the Minister's Rule change proposal and the specific questions raised by the Commission, it is useful to recap on the policy context in relation to the current derogation and the Rule change proposal.

2 Policy context

Victoria has led the way in the rollout of smart meters in Australia. In August 2007, the Victorian Government implemented a mandated, distributor-led AMI rollout. Based on detailed cost-benefit analysis at that time, the Government concluded that a distributor-led mandated rollout would be the most efficient approach¹⁰:

“The Victorian Government believes that the alternative of the retailers acting as the responsible persons will 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 can be achieved and act as an impediment to customer transfer between retailers adversely affecting the overall retail electricity market.”

In its Rule determination in support of the current derogation, the Commission noted the Victorian Government’s position regarding the suggestion at that time that exemptions or ‘carve outs’ should apply to the proposed exclusivity derogation for distributors¹¹:

“The Victorian Government does not support introducing any exemptions. In its submission to the second round consultation, the Victorian Government raised a number of concerns with potential carve outs:

- NEM processes – the NEMMCO B2B (Business to Business) hub currently only supports the flow of information where the distributor is the responsible person. New B2B services would be developed through the NSSC [National Stakeholder Steering Committee] to support contestability in the future but until such time allowing a retailer or the MDA to be the responsible person would pose a number of concerns;
- Potential for customers to be locked into an MDA [now MDP] – as there are only a small number of MDAs providing services to small consumers, a customer may not be able to find a competitive offer. A customer may be able to change retailers but not MDAs and hence be locked into a particular provider. This situation would not achieve metering contestability and does not enable effective retail competition;
- Geographic density – the AMI rollout project requires AMI to be deployed universally and within an accelerated timeframe. The most cost-effective AMT systems require geographic density and any dilution of this density would potentially decrease the cost- and operational-effectiveness of the project;
- Least cost – distributor exclusivity is expected to provide the rollout at least cost. Any diminution of this aspect is therefore likely to reduce the net benefits to the community.”

The Commission agreed with the Victorian Government’s view that no carve outs to the Victorian DBs’ exclusivity should be allowed at that time, and also noted the efficiency benefits of a distributor-led rollout¹²:

¹⁰ Victorian Government, Rule Change Proposal (Jurisdictional Derogation) Advanced Metering Infrastructure Rollout, August 2007, page 4.

¹¹ AEMC, Rule Determination - Victorian Jurisdictional Derogation, Advanced Metering Infrastructure Rollout, 29 January 2009, page 37.

¹² Ibid, pages 39 and 40.

“The Commission’s view is that a Distributor Led Rollout is a guaranteed rollout to all small consumers and, for this reason, provides long term advantages to a greater number of consumers overall.”

The Commission accepted a time-limited derogation in the knowledge that national arrangements were being developed to give effect to contestability¹³.

“The Commission notes that the NSSC will continue to consider the developments required for the transition to a fully contestable market.”

Unfortunately, the progress in developing these national arrangements has been slower than expected. For example, new B2B, MSATS/CATS and metering services accreditation procedures still need to be developed to support contestability in AMI meters. There are also a number of customer protection issues – which we will return to later – that must be resolved.

In contrast to the distributor-led mandated roll out in Victoria, the Commission’s Power of Choice review advocated market-driven AMI rollouts¹⁴:

“Ultimately, we consider that there are benefits from having a competitive approach that allows retailers, network businesses and third parties to install meters in accordance with their individual business drivers.”

The rollout approach advocated in the Power of Choice review will rely on the competitive market to determine the service levels, coverage, and the timing of future roll out programs. In Victoria, the Government determined these aspects of the roll out program based on expert advice. The different philosophy underpinning the Victorian approach needs to be recognised as the Victorian industry transitions to contestability in metering services. In particular, Victorian customers have paid for a mandated roll out, so it is essential that competition is conducted in a manner that does not erode these benefits or reallocates costs unfairly across the customer base.

The Commission correctly notes that the cost recovery arrangements allow the Victorian DBs to recover the costs of the roll out even if competition is introduced. In particular, clause 7.2 of the Order in Council requires the retailer to pay an AER approved exit fee where the retailer becomes the responsible person in respect of a metering installation. Therefore, it is incorrect to conclude that the Victorian DBs’ have a commercial incentive to delay competition in the provision of AMI meters.

The key issue from the Victorian DBs’ perspective is that competition must be orderly if it is to deliver benefits to customers. For the reasons explained in the remainder of this submission, the Victorian DBs are concerned that the introduction of competition on 1 January 2014 may benefit some retailers, but it will create confusion and service issues for customers. This is likely to result in a reduction in net economic benefits.

Given the importance of customer considerations in the Commission’s assessment, the next section examines, from the customers’ perspective, the issues arising from the introduction of metering competition.

¹³ Ibid, pages 39.

¹⁴ AEMC, Final Report, Power of choice review - giving consumers options in the way they use electricity, 30 November 2012, page 85.

3 Contestability must not leave customers worse off

As already explained, the Victorian Government concluded that a distributor-led mandated roll out of AMI meters would maximise the net economic benefits to customers. Now that the roll out is nearing completion, the Victorian DBs recognise that competition in the provision of metering services should be introduced.

However, the Victorian DBs view is that competition must be introduced in a manner that does not leave customers worse off compared to the status quo. This principle is consistent with the Commission's proposed approach for assessing the Minister's Rule change proposal, which is to assess the costs, benefits and efficiency impacts of the following alternative options:

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

In effect, if Option (A) is likely to lead to worse outcomes for customers, then (B) must be preferred. The Victorian DBs also note that taking a customer-focused approach is consistent with the National Electricity Objective, which states that:

- “The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –
- (a) price, quality, safety, reliability, and security of supply of electricity; and
 - (b) the reliability, safety and security of the national electricity system.”

In the following table, the Victorian DBs have identified 6 service performance issues that may be adversely affected if competition in the provision of AMI meters were allowed to commence on 1 January 2014. These areas are:

1. Ensuring network and customer safety.
2. Delivering the expected benefits from the AMI roll out.
3. Delays in supply restoration following an outage.
4. Increased costs of providing legacy distribution services.
5. Barriers to retail competition.
6. Customer protection.

The Victorian DBs consider that these service performance issues will result in a worse outcome for Victorian customers if competition were introduced on 1 January 2014. We concur with the Minister that the benefits from allowing contestability in advance of the national arrangements are likely to be immaterial compared to the performance risks noted in the table below.

We will return to the Minister's cost benefit analysis in section 4 of this submission.

Customer Issue	Victorian DBs' views on customers' expectations following the introduction of contestability in AMI meters
<p>1. Ensuring network and customer safety</p>	<p>As noted in the Minister's Rule change proposal, safety cannot be compromised by the introduction of competition in the provision of AMI meters to small customers. The primary risk to customer and network safety would arise if retailers were allowed to de-energise and re-energise customers remotely without a safety case approved by Energy Safe Victoria (ESV).</p> <p>Currently, clause 5.6 of the Distribution Code places obligations on distributors in relation to special needs customers and distributors have the sole responsibility for de-energisation and re-energisation. A key safety feature of the current process is that both the retailer and distributor handle a de-energisation request for non-payment, and this provides a double check against de-energisation of life support customers. Before retailers are allowed to remotely de-energise or re-energise customers, a protocol needs to be established so that distributors are able to discharge their obligations under the Distribution Code. In addition, if a retailer does not have the capability to provide remote de-energisation or re-energisation, business protocols also need to be established so that the distributor is able to provide these services manually. These examples illustrate that the ESV safety case will be broader than simply utilising the current ESV protocol to establish the site condition with the customer prior to de-energisation or re-energisation.</p> <p>As noted by the Minister, experience indicates that it will take time to establish the necessary protocols to ensure that each party is able to discharge its obligations, and to ensure that network and customer safety is not compromised. It would be imprudent to allow the derogation to lapse without these arrangements being settled and fully tested.</p>

Customer Issue	Victorian DBs' views on customers' expectations following the introduction of contestability in AMI meters
<p>2. Delivering the expected benefits from the AMI roll out</p>	<p>Victorian customers would not expect the benefits from the AMI roll out to be compromised by the introduction of contestability in the provision of AMI meters.</p> <p>However, there are a number of benefits from the roll out program that would be compromised if the derogation were allowed to lapse on 31 December 2013. The benefits which may be compromised include:</p> <ul style="list-style-type: none"> • Reduction in unserved energy due to faster detection of outages, and achievement of faster restoration times • Avoided costs of special meter reads, manual disconnections and reconnections • Avoided costs of additional energy supplied due to time switch clock errors • Avoided costs of a proportion of transformer failures on overload, and avoided unserved energy • Ability to set emergency demand limits to share limited supply at times of network stress or supply shortage • Remote direct load control • Quality of supply monitoring (e.g. voltage issues). <p>In a contestable AMI environment, distributors must obtain the necessary data from retailer-provided meters within the required operational timeframes. However, the NER allows additional data services, which would include AMI data, to be provided at the discretion of the retailer's meter data provider. At present, therefore, the Victorian distributors would not have any right of access to the AMI data that is required to deliver the expected network benefits to customers.</p> <p>Having paid for the AMI roll out, Victorian customers would not expect competition in the provision of AMI meters to erode these benefits. However, unless B2B arrangements are established to ensure that distributors continue to have access to the AMI data within operational timeframes, these benefits will be eroded.</p>
<p>3. Delays and/or costs in supply restoration following an outage</p>	<p>Customers would not expect supply reliability or restoration to be affected adversely by the introduction of contestability in the provision of AMI meters.</p> <p>In a contestable AMI environment, unless the business protocols and B2B arrangements are put in place, distributors will not have sufficient information or authority to resolve outages in a timely manner. For example:</p> <ul style="list-style-type: none"> • A distributor responding to an outage would not be authorised to correct a fault with a retailer-provided AMI meter. • A distributor will be unaware whether an apparent customer outage is due to remote de-energisation by the retailer. <p>In both cases, the customer may be subject to additional costs to cover the distributor's wasted truck visit and to a delay in outage restoration. In relation to the first case, it is conceivable that business protocols could be agreed to allow the distributor to restore supply, even if this required repairs to or replacement of a retailer-provided AMI meter. However, there are likely to be a range of issues to be resolved in relation to market roles, contracts and metering configuration.</p>

Customer Issue	Victorian DBs' views on customers' expectations following the introduction of contestability in AMI meters
<p>4. Increased cost of legacy distribution services</p>	<p>Customers would not expect competition in the provision of AMI meters to affect the costs of obtaining legacy distribution services.</p> <p>Customers with retailer-provided AMI meters would require manual de-energisation and re-energisation from the distributor at least until retailers had satisfied the necessary safety obligations. However, the average costs of providing manual services as 'legacy' distribution services are likely to increase significantly as truck and crew costs are spread over a smaller volume of geographically dispersed services and access to cheaper special meter readers is reduced due to the completion of the AMI roll out.</p> <p>In this respect, customers with retailer-provided AMI meters will face a double cost:</p> <ul style="list-style-type: none"> • the temporary loss of more convenient, timely and lower cost remote services and, • the increasing cost over time of distributors providing legacy manual service capabilities. <p>It should be understood that customers in rental accommodation are most likely to be affected. These customers comprise the vast majority of 'move-in, move out' transactions. The choice of meter provider will be made by the landlord without any particular regard to the cost implications for the tenant or potentially by the previous customer at the premise.</p>

Customer Issue	Victorian DBs' views on customers' expectations following the introduction of contestability in AMI meters
<p>5. Barriers to retail competition</p>	<p>Customers would not expect retail competition to be affected adversely by the introduction of competition in the provision of AMI meters.</p> <p>Currently, when a small customer changes retailer, the distributor passes on the metering charge to the new retailer. There is no need to change the meter. However, this may not be the case under a contestable meter market. Where a retailer-provided meter is installed, the meter would need to be replaced, unless the new retailer accepts the metering service offering and charges of the previous meter providers (Meter Provider and Meter Data Provider).</p> <p>A potential barrier to retail competition arises where a customer is 'locked in' to a retail contract because of the costs of churning a retailer-provided AMI meter. The Power of Choice final report suggested that this issue could be addressed by separating the retail contract from the metering contract. This approach would allow retailer churn, without also requiring meter churn. The Victorian DBs note that no such arrangements are currently in place in Victoria, and therefore it remains possible that customers could become locked-in to a retail contract by choosing an apparently lower cost retailer-provided AMI meter.</p> <p>It could be argued that type 4 metering now works well for large customers, and so there should be no concerns in extending it to small customers. However, the situation for small customers is likely to be different because metering costs are a much larger proportion of the customer's total electricity costs. Further type 4 manual processes currently employed for large customers are not suitable for the mass market, where automated processes are required to manage lower value, higher volume transactions. Large customer retail churn is approximately 3,500 across Victoria per annum. Large customers are retail account managed, generally the retail contracts are multi-year and may include the cost of metering and a meter churn. Given the low volume of large customer churn, the manual processes have sufficed. On the other hand, the small customer retail churn in Victoria is approximately 60,000-70,000 per month, even if a small percentage of this also resulted in meter churn, the current processes would be highly inefficient. Processes need to be in place and agreed across industry to cater for mass market customer volumes and to ensure customers have a good experience.</p>

Customer Issue	Victorian DBs' views on customers' expectations following the introduction of contestability in AMI meters
<p>6. Customer protection issues</p>	<p>There are a number of areas where customer protection concerns could arise when competition is first introduced. It is important that customers are well informed regarding the different metering charges, terms and conditions, and service levels associated with distributor and retailer-provided AMI meters. The arrangements should also safeguard against inefficient meter churn, for instance by facilitating establishment of processes for metering contracts to be transferable between retailers.</p> <p>It is highly likely that retailer-provided AMI meters will offer a range of service levels and costs. Customers must be well informed in making a decision to choose a retailer AMI meter which may be lower cost but with a lower service capability and reliance on legacy distribution services, which will become progressively more expensive over time. As already noted, the manual de-energisation or re-energisation service is a legacy distribution service, which is likely to increase in cost over time. Given their commercial interests in providing AMI meters, retailers are probably not best-placed to manage the customer communications program.</p> <p>Industry experience with the Victorian AMI rollout illustrates the importance of an effective communications program to ensure that customers are well informed and community expectations appropriately set. The communication program also provides an opportunity to minimise potential areas of confusion. Without an effective communication program, the industry and the benefits of metering contestability are more exposed to reputational risks if unanticipated problems arise from the introduction of competition in the provision of AMI meters. The effectiveness of the communications program would be negatively impacted by having concurrent customer communications in relation to the introduction of flexible tariffs and would create confusion.</p>

4 Comments on the Minister's Rule change proposal

This section comments specifically on the Minister's Rule change proposal and his assessment of the respective costs and benefits of:

- Not making the Rule change; or
- Making the Rule change.

We examine each case in turn.

4.1 Effect of not making the Rule

4.1.1 Benefits

The Minister's analysis explains that the incremental benefits of introducing competition in small customer metering services in Victoria from 1 January 2014 is likely to be modest in the short term. In particular, the Minister notes that AMI meters provide a platform for retailers to offer innovative services to the market, regardless of which party is the responsible person¹⁵.

The Minister also notes that retailers would be able to install new and replacement small customer meters if competition were allowed on 1 January 2014. The Minister notes that the retailers may be able to provide metering services more cheaply than distributors. However, an exit fee would be payable to the distribution business if an existing meter is replaced, and there would be a societal cost in replacing a fully functioning meter¹⁶.

The Victorian DBs concur with the Minister's views. The Victorian DBs are not aware of any innovative services that rely on a retailer-provided AMI meter. The Victorian DBs are already working with retailers to deliver value-added customer services. As explained in answer to the Commission's question 1.3, the Victorian DBs doubt whether retailers would be able to provide equivalent meters and data services more efficiently and at lower costs than currently provided through the larger scale AMI program. The Victorian DBs regard it as essential that retailer-provided AMI meters provide an appropriate level of functionality and service. This should include compliance with the AMI minimum service performance functionality and support services, such as call centre availability to ensure that meter faults are addressed in a timely manner. Without delivering this minimum functionality and service levels, customers will not enjoy an acceptable level of service consistent with the objectives of the mandated AMI roll out.

Any price comparison between distributor and retailer-provided meters must be an 'apples for apples' comparison, which recognises the differences in functionality and service levels. For example, if distributors are required to pay retailers for network data that distributors currently access from their AMI meters, this cost will ultimately be passed on to customers in addition to the direct costs of the retailer-provided meter. It is essential therefore that the total cost to the consumer is recognised, and any diminution in the service level is also taken into account.

¹⁵ Minister for Energy and Resources, AMI Rule change request (Jurisdictional Derogation – Victoria, 18 June 2013, page 6.

¹⁶ Ibid, pages 16 and 17.

4.1.2 *Costs and net benefit*

The Minister explains that following costs would be incurred in developing Victorian specific processes and systems to accommodate contestable metering services:

- Business-to-business processes for metering competition would need to be automated¹⁷.
- Current automated business-to-business processes such as de-energisation and re-energisation would need to be amended to reflect the transfer of responsibility from distributors to retailers where the retailer is responsible for the meter¹⁸.
- Processes and systems would need to be introduced for responding to meter faults where the retailer is responsible for the meter¹⁹.
- Processes and systems would need to be introduced for the provision of network data where the retailer is responsible for the meter.
- Customer protection arrangements would need to be changed to accommodate metering competition while protecting consumers' interests²⁰.

The Minister also notes that there is no certainty that Victorian-specific processes would be consistent with the national framework, in which case they would need to be modified again once that is implemented²¹.

The Minister also recognises that there would be a loss of network benefits and operational efficiencies associated with the AMI program if processes and systems are not established to ensure that the retailer continues to provide real time information to distributors²². The Minister noted that cost benefit assessment conducted for the Victorian Government by Deloitte²³ identified significant expected benefits from remote special reads, de-energisations, re-energisations and meter re-configurations²⁴. These network benefits and operational efficiencies feed through to improved customer service and lower costs.

The Minister also raises concern that inefficient meter churn may occur, and retailer-provided AMI meters may act as a barrier to retail competition²⁵.

The Victorian DBs concur with the Minister's findings in relation to the costs of not making the Rule. Competition in the provision of AMI meters will only be introduced efficiently if the regulatory framework and business protocols are agreed and implemented in advance of

¹⁷ Ibid, page 7.

¹⁸ Ibid, pages 6 and 7.

¹⁹ Ibid, page 9. It should be noted that this issue largely does not exist in the current type 1-4 market as most of these customer are not direct connected (meter is connected through a current transformer) and generally do not lose supply through a meter fault.

²⁰ Ibid, page 11.

²¹ Ibid, pages 8.

²² Ibid, pages 9 and 10.

²³ Deloitte, Advanced metering infrastructure cost benefit analysis: Final Report for Department of Treasury and Finance, 2 August 2011, page 63.

²⁴ Requests for remote meter re-configuration is a high volume activity due to the increased uptake of domestic photovoltaic installations and the need to reconfigure the meter to read generation energy.

²⁵ Ibid, page 7.

competition being introduced. It is difficult to imagine retailers or distributors investing time and resources to develop a Victoria-specific solution, when a national approach is being developed in parallel. In fact, some national retailers may prefer to wait for the national process to be settled for their own cost efficiency purposes.

Overall, it is clear that not making the Rule would deliver a significant net cost to customers.

4.2 Effect of making the Rule

4.2.1 Benefits

The Minister concludes that making the Rule would²⁶:

- ensure that the benefits of flexible pricing, which are enabled through the AMI roll out, are captured and thereby promote efficient investment in the electricity system and the efficient use of electricity;
- promote 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;
- promote the security and reliability of the electricity supply through the network operational efficiency benefits enabled through the AMI roll out;
- not adversely impact the safety of the supply of electricity and the safety of the national electricity system while realising the benefits of remote de-energisation and re-energisation enabled through the AMI roll out;
- promote the long term interests of customers by minimising barriers to competition in the retail electricity market and by maximising net benefits to customers; and
- allow the costs of a customer engagement campaign to support the introduction of metering contestability to be deferred for up to three years.²⁷

The Victorian DBs concur with the Minister's assessment of the benefits of making the Rule. The Rule will enable the industry to deliver contestability in an orderly manner without imposing service performance risks on customers. The Minister's approach will allow time to identify and resolve the issues at a national level, and avoid the additional costs and disruption of allowing contestability to proceed in Victoria in advance of these national arrangements being settled.

In Victoria, and under NECF, DBs are responsible for new connections and energisation services. Where requests are made for new connections, for mass market customers the connection, meter and energisation are often provided in one field visit. The Victorian DBs are concerned that there is no agreed industry process in a competitive environment for coordinating the third party meter installation, the service connection and the initial energisation. In the absence of appropriate industry processes, connections may be delayed or additional costs incurred in multiple site visits to effect a connection.

²⁶ Minister for Energy and Resources, AMI Rule change request (Jurisdictional Derogation – Victoria, 18 June 2013, page 14.

²⁷ Ibid, page 22.

Victorian DBs also note that there are benefits in conducting the communication program nationally. A single national process will ensure that customers are better able to make informed choices in relation to their meter providers.

4.2.2 Costs and net benefit

The Minister identifies the administrative costs associated with the Rule change process as the only significant incremental cost²⁸. The Victorian DBs agree with this assessment.

The Victorian DBs also concur with the Minister's conclusion that the net benefit of making the Rule change is considerably greater than not making the Rule change. In particular, the Minister concludes that it is better for Victoria to develop the necessary systems and processes as part of the national process²⁹. The alternative approach in which Victoria proceeds without systems and processes in place, or develops its own solutions independently of the national arrangements, is neither prudent nor efficient.

²⁸ Ibid, page 21.

²⁹ Ibid, page 15.

5 Answers to the Commission's Consultation Paper questions

This section sets out the Victorian DBs' responses to the questions posed in the Commission's Consultation Paper.

Question 1: Costs and benefits

Q1.1 Are the costs and benefits provided in Table 1 of the rule change request appropriate estimates of the range of possible outcomes?

Victorian DBs recognise that the Minister's cost benefit analysis is an objective attempt to assess whether it is better to allow the derogation to lapse or to extend it for a further transitional period. It is inevitable that the cost benefit analysis requires fairly broad estimates to be made given the inherently uncertain nature of the exercise. One source of uncertainty is the extent to which retailers will be successful in providing AMI meters to small customers and the resulting volume of retailer-provided AMI meters.

In stress-testing the Minister's cost benefit analysis, it is worth noting that retailers have a commercial incentive to under-estimate the volume of AMI meters that will be provided on a contestable basis. With low meter volume estimates, it is sometimes argued that the costs and risks of allowing contestability to proceed are manageable. In terms of the Minister's cost benefit analysis, however, this line of reasoning is unlikely to affect the Minister's findings for the following reasons:

- If the volume of retailer-provided meters were genuinely low, it would also indicate a very low incremental benefit from contestability. These benefits would therefore be readily outweighed by any implementation costs, including the customer communication program, for example.
- Even if retailer provided meter volumes were low, particular customers may be exposed to significant costs (for example field based visit charges) or inconvenience if business processes and information flows are not properly developed.
- Despite claims of low meter volumes, a prudent and well-managed industry cannot proceed on that assumption as the alternative outcome of planning for low volumes but incurring high volumes will expose customers to significant performance risks. Instead, the industry must be prepared in case more significant volumes of retailer-provided meters eventuate.
- Where proper processes are not in place individual customers will face increased risk of adverse outcomes as a result of metering contestability. These impacts are inevitably very resource intensive to resolve and hence add greatly to industry and societal costs. Furthermore, as explained in the Minister's submission, the Victorian roll out experience shows that only one or two customers can draw media attention and lead to disproportionate efforts and costs to counter the resulting perceptions of the industry. Similar examples may arise in relation to contestable metering.

In light of these observations, while the Victorian DBs understand that the Minister's cost benefit estimates are subject to some uncertainty, the conclusions are likely to be robust. In particular, it is more prudent to defer the introduction of competition until the national arrangements are settled as this approach will:

- ensure that the Victorian arrangements are aligned with the national arrangements and avoid any rework and transitional costs;

-
- minimise the risks of unintended or undesirable outcomes for customers; and
 - ensure that competition is introduced in an orderly manner with customer protection and communication strategies fully developed and implemented.

Overall, deferring the introduction of competition will reduce the overall industry costs and enhance the longer term prospects that it will deliver genuine benefits to customers.

Q1.2 Are there other costs and benefits that should be considered?

The Victorian DBs consider that the Minister's cost benefit analysis identifies the relevant cost and benefit categories. As noted above, the Victorian DBs recognise that the cost benefit analysis is subject to uncertainty, and different estimates could be applied to a number of categories, or additional sub-categories could be developed.

For example, customers will also be exposed to the increased cost of legacy distribution services if retailer-provided AMI meters are unable to provide remote de-energisation and re-energisation services because of safety considerations. It may be reasonable to extend the analysis to include an assessment of these costs. However, for the reasons already outlined, the Victorian DBs do not believe that extending the analysis will materially affect the Minister's conclusions, including the overall conclusion that there are material costs and risks associated with allowing the derogation to lapse, but not discernable offsetting benefits.

Q1.3 How would the performance of distribution businesses and retailers in installing and managing meters compare in a competitive environment?

Victorian DBs note that this question is speculative because there is very limited data on which to base a response.

The Victorian distribution businesses have gained considerable experience through the mandated roll out program. It is important to note that the distribution businesses face a commercial incentive to manage these programs efficiently, in order to minimise any exposure in terms of cost recovery. It is therefore reasonable to assume that the distribution businesses are installing and managing meters efficiently, including the resolution of health and safety issues in relation to meter boards.

The Victorian distribution businesses have sourced many of the components of the end to end metering solution through competitive tender. It is unclear, therefore, how smaller volumes of retailer-provided AMI meters could be provided at lower cost, unless retailer-provided meters have significantly lower levels of functionality or services. As noted in section 4.1.1 of this submission, the Victorian DBs regard it as essential that retailer-provided AMI meters provide an appropriate level of functionality and service. Any price comparison between distributor and retailer-provided meters must be an 'apples for apples' comparison, which recognises the differences in functionality and service levels.

While customers should be best placed to choose between service levels and costs, retail competition has highlighted the importance of customer protection measures to ensure that customers are well informed before entering into contracts with retailers. Even if retailers could install meters more efficiently than distributors – which we consider highly doubtful - the costs associated with poor sales practices could easily swamp any potential benefits.

In term of customer protection, it may also be appropriate to place minimum service obligations on retailers offering metering services to small customers. For example, it may be appropriate to establish minimum levels of after hours support to address any faulty meters or switching corrections. Without specifying minimum standards, it is unlikely that the installation

and management of meters in a competitive market environment will be efficient or problem-free.

A related issue arises in relation to minimum service obligations. Circumstances arise where a customer's meter board and/or enclosure is in a derelict condition and in need of repair before a meter can be replaced. Replacement of a meter at these sites would be relatively costly. Retailers are most likely to avoid these sites in a competitive market environment. This observation begs the question – who is going to be the default meter provider of last resort? Under these circumstances, distribution businesses may be required to be the default meter provider – thus having to absorb the higher cost in their meter price offerings. Alternatively, this obligation could be imposed on certain retailers – for example, the host retailer. Addressing these type of issues “on the fly” will add significant industry operational costs, and hence these service obligation questions must be considered and suitable regulatory frameworks established before contestability is introduced.

Q1.4 If Victorian-specific arrangements have to be developed because the rule is not made:

(a) Would such arrangements tend to limit the loss of benefits from the AMI program?

(b) Are such arrangements likely to prevent inefficient meter replacement?

In theory, if Victorian-specific arrangements were developed the adverse consequences of allowing the derogation to lapse would be reduced. However, the reality is that such arrangements would take significant effort and time to develop, and the intervening period would produce outcomes that are contrary to the NEO. The Victorian DBs consider that inefficient meter replacement is only one aspect of the inefficiencies that would arise if the derogation were allowed to lapse on 31 December 2013.

The Victorian DBs' analysis in section 3 of this submission indicates that there are 6 categories of issues that are likely to be of particular concern to customers. The societal costs arising from the inefficient replacement of meters is not necessarily a matter that will weigh heavily on the minds of individual customers. This is because customers will be principally concerned with whether a retailer-provided AMI meter will be lower cost, rather than whether the replacement of an existing meter is economically inefficient. Therefore, even if the inefficient replacement of meters could be resolved, the Victorian DBs note that the customer issues in section 3 would still need to be resolved.

In summary, the Victorian DBs concur with the Minister's analysis that it would be inefficient to allow competition to be introduced in Victoria from 1 January 2014. A disorderly introduction of competition would expose customers to unacceptable service and performance risks.

Question 2: Efficiency impacts

Q2.1(a) What are the likely impacts on retail competition?

The Victorian DBs concur with the Minister's concerns regarding the potentially adverse impact on retail competition if metering churn issues are not properly addressed. It is difficult to assess how meter churn will affect retail contestability because the regulatory framework (or market model) has not been settled.

One potential model for small customers would be to replicate the existing arrangements for large customers. Under such a model, the meter churns almost every time a customer

changes retailer, so the costs (and therefore the barriers to retail competition) will be high. These costs include, but are not limited to:

- significant transaction costs across the industry, including a largely inevitable proportion of set up errors leading to customer metering data and associated billing and market settlement issues;
- greater asset management costs; and
- contract management costs.

The design of arrangements for metering contestability needs to have regard to the possibility that retailers may seek to attract customers to a particular retail contract by offering an apparently 'cheap' metering service. If arrangements require a customer to change the meter in order to change retailers, then meter churn and associated charges (which are unregulated) may become a potential barrier to competition in the retail electricity market.

The Commission's Power of Choice Final Report contains proposals aimed at overcoming this problem. The Commission's proposals entail, amongst other things, the following elements:

- Metering charges would be unbundled to enable the customer to understand the charges they are paying.
- Standard terms and conditions would apply to metering contracts. The standard terms would address matters including transparency of the new charges, the term of the contract, exit fees, and the administrative charge or margin the retailer is able to charge.
- The standard terms would also provide for novation of the contract to the next customer or the next retailer at the premise, to avoid meter churn.

Under the model envisaged by the Commission, the meter churn frequency would be lower than under a model requiring a customer to change the meter in order to change retailers. However, the key elements of the arrangements proposed by the Commission - including unbundling of metering charges, establishment of standard terms, and arrangements for novating metering contracts – depend upon the implementation of an appropriate regulatory framework. These details need to be worked through and developed.

The Victorian DBs see no reason why competition in the provision of AMI meters should be allowed to jeopardise the effectiveness of retail competition. It is better to take the time to develop the framework for metering competition and thereby avoid any consequential adverse impacts on retail competition.

Q2.1(b) What are the likely impacts on the uptake of flexible pricing by consumers?

In addressing this question, the Victorian DBs note that important lessons can be learnt from the meter rollout program. The absence of an effective communications program for the AMI rollout resulted in poor customer understanding of the program and the benefits. As a consequence, there was a high install refusal rate and the costs of the roll out program increased. A significant number of customers remain sceptical regarding the benefits of the AMI roll out.

The Victorian DBs therefore share the Minister's concerns that confusion will result if parallel or combined communication programs attempt to explain the introduction of contestability in

the provision of AMI meters and the introduction of flexible tariffs. The Victorian DBs understand that consumer groups also share these concerns.

Q2.1(c) What are the likely impacts on competition in metering services?

Superficially, the proposed Rule change could be regarded as lessening competition in the provision of metering services. We say ‘superficially’ because competition will only deliver net benefits to customers if it is supported by appropriate systems and B2B arrangements that do not undermine the benefits from the AMI roll out or retail competition more generally.

Furthermore, the Minister’s proposal is to defer the introduction of competition in metering services and therefore any benefits from competition will be delayed rather than lost. Retailers have not tabled any specific innovations that depend on retailer-provided AMI meters. The Victorian DBs recognise that such innovations may develop over time. However, we concur with the Minister’s observation that innovation does not depend on meter ownership. In particular, it should be noted that a number of the distributors currently provide HAN binding services to retailers.

It is also worth noting that some adverse consequences may follow from contestability in the provision of AMI meters. For example, all customers have paid for establishment of a uniform meter rollout to facilitate recognised societal benefits. In a contestable environment some customers may prefer a retailer-provided meter with a lower level of functionality compared to an AMI meter, and correspondingly lower costs. A free-rider issue arises if this customer is still able to enjoy the network benefits from the mandated AMI roll out program, such as reliability improvements, without paying the higher costs. Or alternatively customers opting out may risk the viability of these benefits being available to the broad customer base.

The Victorian DBs therefore do not regard competition in the provision of AMI meters as either a necessary or sufficient condition for achieving economically efficient outcomes. Instead, the Victorian DBs consider that active regulatory engagement will be required to ensure that customers obtain the benefits from technology change and are able to make informed choices.

Q2.1(d) What are the likely impacts on innovation in metering and metering services?

It is sometimes argued that innovation in energy services is inhibited by the distributor’s current exclusivity in the provision of AMI meters. On this argument, the loss of network benefits brought about by the introduction of competition may be offset by greater innovation. The Victorian DBs, however, do not support this view.

Product development and innovation by retailers and other participants is being achieved in the current environment. For example, some distributors are already providing facilitated access services to allow binding of HAN devices in the consumer’s home.

The Victorian DBs are embracing AMI meters as a key enabler of smart networks and the customer service improvements and other benefits which will flow from this technology. These early initiatives take advantage of direct access to the functionality and data that is provided by the AMI meters, and assume that the functionality and data will continue to be available following the introduction of contestability in AMI metering.

However, if the DBs’ access to the AMI meter data and services is not maintained in a timely and cost effective manner in a competitive metering environment, a number of initiatives may not be capable of delivering the expected benefits, and may no longer be justified. Other projects may progress with reduced benefits, and/or with the benefits not flowing to those customers with a retailer-provided AMI meter.

In the attachment, the Victorian DBs provide details of the network initiatives that are currently underway. The attachment also highlights the potential impact on the resulting benefits if the required functionality and service levels cannot be obtained from retailer-provided AMI meters. The table below summarises a number of initiatives, and highlights the network and customer benefits that are potentially at risk.

Examples of Victorian DBs' network and customer services initiatives using AMI data

AMI Functionality	Dependent customer benefit at risk
Data collection by 6 am the following morning	<p>Victorian DB AMI meters allow data to be collected earlier and with greater completeness than the minimum data delivery requirements specified for type 4 meters in the NER.</p> <p>Early data availability enables customers to observe the impact of their consumption decisions and to change behaviour where appropriate. For example air-conditioning consumption and costs on a hot day can be used by the customer to modify their air-conditioning usage the next day if this is also hot.</p> <p>Distributors use aggregated AMI meter data to analyse loading at the 22 kV, distribution transformer, and low voltage circuit level. This analysis can provide early warning of excessive loading on circuit elements, which can enable prioritisation of replacement and upgrade works. This can reduce network costs due to degradation or failure of network assets, and avoid the customer outages associated with asset failures. In a heat wave or other extreme event, availability of data by 6 am the following day enables immediate analysis of current loading conditions to identify potential failure points if conditions persist the following day.</p>
Remote load control commands	<p>AMI meters are now used to switch loads on "load control circuits" directly and manage the timers that control those circuits. The AMI meter also provides the capability to spread the energisation of these loads over a period. This new capability enables distributors to respond to changes in loading patterns on particular feeders or substations to maintain network balance.</p> <p>Metering data service providers are subject to accreditation and audit, including their system security parameters, however there is currently no matching regime for non metrology features and systems such as load control. Unexpected or erroneous remote load control operations could have network impacts with major consequential adverse outcomes for customers.</p> <p>Hot water load control settings in other than off peak tariff times may have an unwelcome impact on customers financially.</p>

AMI Functionality	Dependent customer benefit at risk
Meter loss of supply and outage detection	<p>DB fault centres and control rooms are piloting the use of near-real-time AMI data including “meter off supply” (last gasp) and “meter on supply” messages after outages. This provides restoration crews with precise data on the location and extent of faults on the network within minutes.</p> <p>AMI data enables the DB to initiate responses by fault crews significantly earlier. The data also facilitates more effective use of fault crews by directing them to critical network points. Where complicated or multiple faults involve the operation of several protective devices, AMI data provides the fault centre with evidence that all affected parts of the network have been returned to service before fault crews leave the area.</p> <p>Any loss of AMI data in the network footprint – particularly where non-distributor meters are clustered in a single location - will undermine controllers’ ability to focus resources in this way, resulting in slower restoration times for customers.</p>
Immediate sending of alarms and events / status changes	<p>Other alarms and events are now being used in network operation in a similar manner to the AMI “loss of supply” messages detailed above. This will include events such as:</p> <ul style="list-style-type: none"> • Over Temperature Alarm; • Over/Under Voltage – compliance breach; • Tamper Detection; • Confirmations of Issued Commands actioned (such as confirming disconnection); • Load contactor switching; and • Tripping due to “Emergency supply capacity limiting”. <p>If these data are not available in near-real-time, network controllers’ ability to maintain balance and power quality will be impaired, with avoidable potential negative consequences for sensitive customer equipment connected to the network.</p>
On-demand provision of events and status information	<p>DB contact centres can determine the customer meter’s supply contactor status whilst the customer is still on the call. This improves customer service as it reduces the supply fault validation time and enables the provision of more accurate and faster advice regarding customer side faults. This enables the earlier engagement of a Registered Electrical Contractor where necessary, as well as a reduction in wasted truck visits.</p>

The initiatives set out above can continue to be provided in an environment where AMI metering is contestable as long as the critical data from AMI meters is made available to distributors in a reliable and timely manner. This outcome is achieved through a series of B2B transactions that allows data from AMI meters (events, settings, supply contactor status and results of ‘pings’) to be delivered to distributors by retailers (or their service providers) in response to changes in the installation or in the meters, or as a result of B2B requests submitted electronically by the distributor.

Moreover, it would be incorrect to assume that there would be a significant enhancement in innovation if competition in metering services were introduced at the earliest opportunity. As already noted, it is much more likely that some of the initiatives that are currently underway would either deliver reduced benefits or may no longer be viable.

Q2.2 Are there processes and systems that could be implemented in Victoria to improve third party access to metering data and metering services, thereby encouraging innovation?

Currently, there are no formal arrangements in place to facilitate third party access to AMI meters. Therefore, data and services from retailer-provided AMI meters would not be available to distributors, other than through commercial negotiation. It is difficult to regard this outcome as anything other than a retrograde step in terms of achieving the efficiency objectives in the National Electricity Objective.

More broadly, third party access to AMI data and services, and the terms on which access is provided, is a matter that should be determined at a national level. The Victorian DBs question whether it would be efficient to establish a set of multi-lateral arrangements for Victoria that may later be misaligned with the national arrangements.

Q2.3 Are there other efficiency impacts that have not been considered?

As already noted, the Victorian DBs agree with the Minister's conclusions from the cost benefit in the Rule change proposal. It is conceivable that other efficiency impacts could be included in the analysis, but we doubt whether this would have any impact on the Minister's conclusions.

The Victorian DBs note that the Power of Choice (POC) states that any new smart meter must at least be equal in functionality to the smart meter being replaced, that networks will have access to the operational data from smart meters and also the ability to undertake load control for network planning and operations.³⁰ In addition, the POC expects that AEMO will have a register of all smart meters.³¹ The Victorian DBs consider that there is an efficiency benefit in waiting for the final solution to be delivered as there is no way of determining basic type 4 meters (existing type 4) from smart meters (e.g. AMI meters) in the NEM which will be required if these aspects of the Power of Choice Final Report are to be delivered in the NEM. It is important that the benefits of smart meters are capable of being obtained by distinguishing these meters from type 4 meters, through a feature such as meter type or read flag code. If this rule change did not proceed it may be hard to back track to distinguish smart meters if they are mixed with type 4 meters.

Some retailers may be of the view that there is no need to identify non-AMI type 4 meters from AMI type 4 meters. It may be that these retailers believe retailer-provided AMI meters should not be subject to the same functionality and/or service levels as the meters provided by distributors – therefore there is no need to distinguish non-AMI and AMI meters. In contrast, the Victorian DBs consider it very important to be able to understand, in a readily discoverable way, whether a type 4 meter is capable of supporting the range of smart meter services and data required from AMI meters. This will enable distributors and retailers to take up these services as required, and also provide an understanding of the meter installation “condition” and potential meter service provider response for a range of scenarios including under outage and fault conditions.

In particular, the Victorian DBs' view is that important efficiency concerns relate to the adverse customer consequences that would follow if the derogation were allowed to lapse on 31 December 2013. Section 3 of this submission summarises these likely exposures. In addition to these customer-focused issues, inefficiencies would also arise from the inappropriate churn

³⁰ AEMC Final Report, Power of Choice Review – giving consumers options in the way they use electricity, 30 Nov 12, pages 97 and 110

³¹ Ibid, page 94

of existing meters and additional transitional costs in Victoria migrating to the national framework.

Question 3: Impacts on consumer confidence

Q3.1 What impacts on consumer understanding and confidence would result from not making the derogation, given the additional amount of change that might create?

As explained in relation to question 2(1b), the Victorian DBs share concern expressed by the Minister and consumer groups that confusion will result if contestability in the provision of AMI meters is introduced at the same time as flexible tariffs.

The Victorian DBs also concur with the Minister's view that metering competition may act as a barrier to retail competition. It seems likely that such an outcome would damage consumer confidence in retail and metering contestability, with a consequential impact on economic efficiency.

Q3.2 What would be the costs of effectively engaging with consumers to communicate the additional change and maintain confidence in the market?

This question appears to imply that a better communication campaign would resolve the issues that would arise if competition in metering services were introduced from 31 December 2013. This view is incorrect, as illustrated by the wide range of issues outlined in section 3 and the attachment.

The Victorian DBs consider that consumer confidence would be best enhanced by an orderly approach to competition in metering services in which the relevant issues had been identified and resolved. It is clear from the Minister's rule change proposal and this submission that many issues remain outstanding.

Q3.3 Are there other impacts on consumer confidence that have not been considered?

As already noted, the Victorian DBs consider that consumer confidence cannot be assured if the issues associated with introducing competition in metering services have not been worked through and addressed appropriately.

Question 4: Duration of derogation

Q4.1 Is it appropriate to link the duration of the derogation to the establishment of the national framework for competition in metering and associated services

Yes. There are significant cost savings if Victoria adopts the national arrangements for competition in the provision of metering services.

Q4.2 Is three years an appropriate duration in the event that the national framework is not established by that time?

The Victorian DBs share the Minister's view that the national arrangements should be finalised within this three year time period.

The Victorian DBs note that the Commission's Power of Choice will result in a number of Rule change packages, which will establish the national smart meter framework. Once the national arrangements are settled in the Rules, a number of steps must be taken to give effect to the

Rules. In particular, NEM processes and procedure changes and B2B arrangements must be designed, drafted and consulted on, and industry system changes must be implemented.

As presently drafted, the Victorian DBs interpret the proposed derogation as allowing sufficient time for the national framework to be settled and the industry processes and procedures to be implemented. The Victorian DBs will continue to work constructively with the Victorian DPI and industry working groups to satisfy the timeframes envisaged by the Minister.

Q4.3 Are there other considerations that should be taken into account?

As already noted, there are a number of complex issues that must be addressed to ensure that competition in the provision of AMI meters will promote the National Electricity Objective. Experience suggests that it is easy to underestimate the complexity of these matters and the time required to resolve them. This observation illustrates the importance of taking a cautious approach to introducing competition in the provision of AMI meters.