

A few
words.

3 February 2013

Mr Warwick Anderson
General Manager – Network Regulation Branch
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Submitted via email to NSWACTelectricity@aer.gov.au



Dear Warwick,

AGL Energy Limited (AGL) welcomes the opportunity to comment on the Discussion Paper on "Classification of metering services in NSW", issued by the AER in December 2012 (AER Paper).

AGL is one of Australia's largest energy companies and operates across the energy supply chain including investments in electricity generation and electricity retailing. AGL has over 3 million retail customers and control of over 5,000MW of generation capacity in the National Electricity Market (NEM).

Objectives in the proposed Reform of Metering Services

The introduction of competition in metering services is one of three key reforms proposed in the "AEMC Final Report: Power of choice review – giving consumers options in the way they use electricity" (AEMC Report) to achieve an efficient demand-supply balance in the National Electricity Market¹. AGL supports these reforms.

AGL therefore fully supports the unbundling of metering charges from the standard electricity network charges. This is consistent with the approach in the AEMC Report of:

- promoting open competition in the provision of metering services to encourage commercial investment in smart meters²; and
- Ensuring consumers can benefit from a competitive metering market by providing consumer choice of products, services and suppliers through a competitive approach³.

AGL supports the AER's revised classifications for "Meter provision, maintenance and reading" as "alternative control services" and "Meter installation" as unregulated services

However, AGL does not support AER's decision to retain the classification for energy data services as "standard control services". If the costs for the energy data services remain bundled within the DUOS charges, it would have the effect of severely limiting the full potential of an important micro-economic reform on Metering Services (i.e. Meter Provision and Meter Data Provision) since customers would have to pay twice for this service if they chose an alternate meter provider.

¹ AEMC Report p. ii

² *Ibid* p. iii

³ *Ibid* p. 83, 84

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Proposed New Regulatory Model for Contestable Metering Services

The AEMC Report proposes a competitive model that shifts type 5 and type 6 metering services from a regulated monopoly to an open and contestable service, including the removal of distinctions between the contestable type 1 to type 4 meters and type 5 to type 6 meters⁴. It also recommends that any new or upgraded metering installation be classified as type 1 to type 4⁵. As part of the transitional arrangement, the AEMC Report proposes that the existing type 5 smart meters in Victoria be reclassified as type 4 and any other type 5 meters be reclassified as type 4 where practical or viable⁶. In AGL's view, the proposed competitive model will, in the long run, facilitate a transition of the majority of type 5 and type 6 meters to fully contestable type 4 meters.

AGL notes that the competitive model for metering services in the AEMC Report is supported by a recommendation to remove the option for governments to mandate the rollout of smart meters from the National Electricity Law⁷.

It is worth noting that the contestable model for metering services proposed in the AEMC Report includes removing the exclusive roles and responsibilities for distributor to provide type 5 and type 6 meters to facilitate the participation of independent service providers⁸. This would provide more regulatory certainty for unregulated investments and reduce barriers to entry for new investors.

This arrangement would allow the distributors to participate in the contestable market, not as a regulated business, but rather as suitably ring-fenced and accredited Meter Provider and Meter Data Provider entities. This clearly requires the distributor to legally separate their investment, operation and accounting functions between monopoly and competitive businesses as required under the ring-fencing guideline.

The issue of ring-fencing and its application to emerging technology services that are, or can be, provided by distribution businesses has been reviewed previously by AER⁹. In that review, the AER concluded that the existing ring fencing guidelines need to be revised so that they can adequately cover contestable emerging technologies and energy services that may be provided by a regulated business¹⁰.

AGL and many industry participants have emphasised that competitive neutrality is a critical principle that must be protected where there is a potential for a market participant to derive an unfair competitive advantage via a monopoly position of a related party.¹¹ This principle is consistent with the framework and agreements of National Competition Policy (NCP) that included structural separation of a monopoly business from its competitive activities. As AGL stated in its previous submissions, ring-fencing is an essential regulatory tool to ensure that there is no cross subsidy between the distributors' regulated and unregulated business.

Along with the proposed new contestable model for metering services, the AEMC Report also recommends the unbundling of metering costs from the DUOS charges¹². The AEMC Report indicates that metering costs include meter installation, maintenance, and critically, meter data management services¹³. The AEMC Report considers that this approach is essential so that a consumer can properly compare smart meter costs with their existing metering charges to make a fully informed decision on the cost of its energy management requirements¹⁴. In addition, it is also a key consideration in the AEMC Report that the

⁴ AEMC Report p. 80, 83, 86, 88, 89

⁵ *Ibid* p. 88

⁶ *Ibid* p. 91

⁷ *Ibid* p. 82, 86

⁸ *Ibid* p. 83, 89, 90, 91

⁹ AER Position Paper, Electricity Distribution Ring-fencing Guideline, p. 6

¹⁰ *Ibid* p. 9, 10

¹¹ ERAA Competitive Neutrality in energy service provision

¹² AEMC Report p. 88

¹³ *Ibid* p. 88

¹⁴ *Ibid* p. 88

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consumers should not be paying twice for their metering services when they choose to upgrade or install a new smart meter¹⁵. This is not currently possible as customers who choose a smart meter would also face paying for metering services that are no longer needed through DUOS charges in NSW.

Competitive Market for Metering Services

The competitive metering market for the type 1 to type 4 meters has been evolving for more than ten years, promoted under the auspices of NCP, through contestability in Chapter 7 of the National Electricity Rules (NER) and through on-going regulatory reform.

The NEM and NER have for a long time entrenched the separate roles and responsibilities of meter provision and meter data provision in its operations. The NER confers the right for the Responsible Person for a type 1 to type 4 meter to engage the Meter Provider and the Meter Data Provider, two clearly defined, separate market roles that are accredited and ring-fenced. AEMO have built a market system that relies on the compliance and delivery of these services from separate providers through its accreditation programs. The AEMC Report accepts the need to keep these two competitive functions separated and preserves their existing roles in its proposed contestable model for metering services¹⁶.

AGL continues to support the separation of these two competitive roles in the metering market. In AGL's view, competition in the provision of meter data services is essential to support efficient services, product & service innovations and enhanced customer service. In its basic form, having access to accurate and timely data minimises the inefficiencies and costs in retail operations. Competitive meter data services will ensure the highest quality service standard which, in AGL's view, has not always been available under the regulated regime. Beyond the basic quality market data requirements, innovation from emerging and existing technology relies on access to and using of data, and the intimate relationship that retailers have with customers. AGL believes the innovation objectives, such as that of Demand Side Participation outlined by the AEMC Report, are best promoted through a transparent and open competitive metering data market. In addition, it is also a step towards achieving the interoperability of metering and the protocols that are critical for mobility and transfer of contracts for suppliers and customers.

The AER Proposal

AGL concurs with the AER's conclusion that the potential benefits of unbundling type 5 and type 6 meters will, in the long run, outweigh any potential disadvantage.¹⁷ As highlighted in the AER Paper, the benefits of unbundling all metering charges from DUOS charges will:

- remove the significant barrier of customers paying twice for metering and metering services that would occur if components of metering remain bundled within DUOS charges;
- provide customers with more accurate information about costs;
- ensure competition in metering services is not be inhibited by artificial barriers;
- allow for harmonisation and consistency across jurisdictions;
- address the wider impact of metering services; and
- assist with implementing national and jurisdictional metering policy reforms that are being considered.¹⁸

AGL strongly supports these benefits, and the compelling case that they make for the change of classification for meter provision, maintenance and reading services to alternative control (unbundled) services.

¹⁵ AEMC Report, p. 79, 88

¹⁶ AEMC Report, p. 89, 90, 97

¹⁷ AER Paper, p. 2

¹⁸ AER Paper, p. 3-6

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AER Approach to Classification of Metering Services

AGL supports the AER's decision to revise its original Framework and Approach in the classification of metering services.

AGL particularly supports AER's approach in differentiating the various components of metering services and recognise the differences in these activities. AGL concurs that for classification purposes, these service components are grouped as follows:

- Meter provision, maintenance and reading;
- Meter installation; and
- Energy data services

These groupings are consistent with the way the competitive market for type 1 to type 4 meters is categorised but recognise that metering installation in NSW is already an unregulated market.

AGL also supports the revised classifications for "Meter provision, maintenance and reading" as "alternative control services" and "Meter installation" as unregulated services.

However, as noted above, AGL does not support the AER's decision to retain the classification for energy data services as "standard control services" because this would bundle the meter data provision services within DUOS charges, thus eliminating competition and the prospect of innovation.

This decision is inconsistent with the proposal and recommendations in the AEMC Report and the competitive neutrality espoused under the NCP. AGL understands that it is illegal to fund any competitive services from the regulated revenue. This implies that the AER proposed classification means that the meter data services costs bundled in the DUOS charges would have to be reversed later if the recommendations of the AEMC Report for competitive metering services are adopted. Furthermore, the reallocation of the meter data services costs from the regulated revenue would be required under the proposed AER revision to the ring-fencing guideline that would require an arm's length arrangement that separates legal, accounting and functions between regulated and unregulated businesses.

The decision also contradicts the AER stated reason of unbundling metering costs so that customer will no longer risk paying twice¹⁹. By retaining the metering data cost within DUOS charges, consumers may face the prospect of paying twice for the cost of metering data services if they decide to switch to smart meters provided by another service provider. Clearly, this will either result in an excess cost to consumers, or severely limit competition and product innovation in the National Electricity Market, neither of which would appear to be a desirable outcome.

The reclassification of energy data services as standard control services does not provide a level playing field for the independent metering service providers competing in this market and does not allow the true cost of providing the type 5 and type 6 metering services to be revealed.

That the NSW Network Service Providers have sunk investments in meter data services which do not vary substantially with volumes does not appear to be a sound reason to enshrine monopoly revenues when it has the effect of creating an unfair barrier to entry for new entrants and, above all, will demonstrably diminish competition and product innovation – all of which is in the best long run interests of consumers.

It is our view that this arrangement distorts the market and compromises AER's stated role in promoting competition and efficiency in accordance to National Electricity Objectives²⁰.

¹⁹ AER Paper, p.3

²⁰ AER Paper, p. 6

AGL strongly believes that the approach on the reclassification of type 5 and type 6 meters should be firmly based on the objectives and principles contained in the AEMC Report, the NCP framework and agreements, the National Electricity Law²¹ and the National Energy Retail Law²² as discussed in the first three sections of this letter, which are to facilitate and support long term competition reform.

AGL strongly urges the AER to revise its approach and amend the classification of energy data services to “alternative control services” to ensure that it is consistent with recommendations from the AEMC Report and NCP principles.

Please contact me on 03 8633 6026 for any further information regarding this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alex Cruickshank'.

Alex Cruickshank
Manager Energy Regulation

²¹ The National Electricity Objective is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system.

²² National Energy Retail Objective is to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to price, quality, safety, reliability and security of supply of energy

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