



Discussion paper

Classification of metering services in NSW

**Matters relevant to the framework and approach
for NSW DNSPs 2014–19**

December 2012

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Request for submissions

Interested parties are invited to make written submissions to the Australian Energy Regulator (AER) regarding this paper by the close of business, 1 February 2013.

Submissions should be sent electronically to: [NSWACTelectricity@aer.gov.au](mailto:NSWACTelectricity@ aer.gov.au)

Alternatively, submissions can be sent to:

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Shortened forms

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASP	Accredited Service Provider
DNSP	Distribution Network Service Provider
DRET	Department of Resources Energy and Tourism
DUOS	Distribution Use of System
F&A	Framework and Approach
NER	National Electricity Rules
NEL	National Electricity Law
NEM	National Electricity Market

1 Introduction

All electricity customers have a meter that measures the amount of electricity they use.¹ However, not all customers have the same type of meter. Typically, the type of meter a customer has depends on the amount of electricity that customer is likely to use. For example, households and small businesses that use a relatively small amount of electricity generally require a less sophisticated type of meter to large industrial users. A small but growing number of households and small business customers are seeking more information about their electricity usage. This requires a type of meter that does more than the standard issue meters that electricity distribution businesses provide.

The standard meters that most households and small businesses have are known as “accumulation” or “type 6” meters. These meters simply keep a record of how much electricity a customer uses in total over a period of time. Type 6 meters cannot record at what time of day a customer uses electricity. A smaller number of households and small businesses have “interval” or “type 5” meters that can record not only how much electricity a customer uses, but also when they used it.² In addition, some households and small businesses install “smart” or “type 4” meters. Smart meters record how much electricity a customer uses, when they used it, and have a communications capability that allows electricity distribution service providers (DNSPs) to have real time or near real time access to read them remotely. Smart meters offer customers more frequent information about usage allowing customers to better manage their use of electricity. There are a number of innovative products and services that are also made possible by smart meters.

The Australian Energy Regulator (AER) is considering how to regulate metering services in New South Wales (NSW) for the next five year regulatory control period commencing 1 July 2014. This involves determining the “classification” of metering services. Classification determines how DNSPs will charge customers for metering services.

In NSW, the AER does not regulate metering services for large customers (meter types 1 to 3), that is, they are “unclassified”. These meters are available in a competitive market so customers are not restricted only to the meters that the NSW DNSPs provide.³ The same is true of smart meters (type 4 meters) which the NSW DNSPs and other metering service providers provide to households and small businesses.

However, only the NSW DNSPs provide interval and accumulation meters (type 5 and 6 meters) to households and small business.⁴ Under the current classification of types 5 and 6 meters in NSW, the DNSPs bundle costs for these services into standard electricity charges and customers cannot avoid them. For example, if a customer with a type 6 meter chooses to install a type 4 smart meter, they still need to pay for the old metering services. This is because the DNSP bundles the charges for type 5 and 6 metering services into the standard electricity charge.

¹ All connections to the network must have a metering installation (NER, cl. 7.3.1A(a)). There are seven different meter types. Type 7 metering installations are a special kind of unmetered connection, for example, for street lights.

² Interval meters record how much electricity was used in every 30 minute interval. Detailed information on meter types is at appendix A.

³ The NSW DNSPs are Ausgrid (formerly EnergyAustralia), Endeavour Energy (formerly Integral Energy) and Essential Energy (formerly Country Energy);

Industrial and large customers may use a type 1, 2, 3 or 4 meter. These meters are already open to competition and are not regulated by the AER (NER, cl. 7.2.3(a)(2) and 7.3.1.A(a)).

⁴ The NSW DNSPs are the ‘responsible person’ for types 5, 6, and 7 metering installations (NER, cl. 7.2.3(a)(2))

Consequently, the AER proposes to change the way it regulates types 5 and 6 metering services, to provide more flexibility and choice for households and small businesses. The AER considers unbundling types 5 and 6 metering services will benefit customers in several ways:

- customers will have better information about the cost of all metering services
- customers will have greater choice as they will be able to switch between meter types (if they wish) without having to pay for services they do not use
- customers will not face barriers that could restrict them from participating in innovative demand side management schemes that help to reduce the cost of electricity
- metering service prices will more closely reflect the actual cost of providing those services, which is likely to increase efficiency
- metering service provision will be more competitive, albeit that under current legislation NSW DNSPs will still provide the most basic meter types.

The AER recognises that there are also potential disadvantages for customers that may result from NSW DNSPs unbundling types 5 and 6 metering services:

- there may be transitional and/or ongoing administrative costs for the NSW DNSPs which they need to recover from customers
- customers may consider that charges and options for metering services are more complex.

Overall the AER considers that the potential benefits of unbundling types 5 and 6 meters will, in the long run, outweigh the potential disadvantages. The AER intends for its revised approach to minimise possible disadvantages, and maximise possible benefits for consumers. The AER's approach is in line with the Australian Energy Market Commission's (AEMC) recommendations in its Power of Choice review final report.⁵ The AER's approach also compliments the views the Department of Energy Resources and Tourism's (DRET) expressed in its Energy White Paper.⁶

The AER intends to take a different approach to metering to what it outlined in the preliminary Framework and Approach (F&A).⁷ Consequently, the AER is publishing this discussion paper seeking comments prior to preparing its final F&A paper. The AER is due to publish its final F&A paper in March 2013. The AER has structured this discussion paper as follows:

- Section 2—the AER explains its role in metering classification, its objectives, how it must make its decision, and the opportunities available.
- Section 3—the AER presents and explains its revised position on classifying metering services in NSW, and outlines how its revised position will impact prices customers pay.

⁵ This is discussed further in section 2.6.

⁶ This is discussed further in section 2.6.

⁷ The AER's preliminary F&A was released on 25 June 2012.

2 Why unbundle metering services?

By law, only the NSW DNSPs can supply interval and accumulation meters (meter types 5 and 6) to households and small businesses. The way the AER currently classifies types 5 and 6 metering services in NSW means that the NSW DNSPs bundle charges for metering services in the basic electricity network charges all customers pay. The AER proposes to change how types 5 and 6 metering services are classified. The AER will require NSW DNSPs to remove (unbundle) these meter charges, reducing standard electricity charges. However, the NSW DNSPs will add a separate metering charge to customer bills. The net effect of the AER's changes will be that most customers are no worse off.

If most customers would be no worse off, why should the AER require NSW DNSPs to unbundle type 5 and 6 metering services? The AER explains why in the following sections.

2.1 Customers will no longer risk paying twice

The following customers are currently paying twice for metering services because the NSW DNSPs currently bundle types 5 and 6 metering services into standard electricity charges:

- customers that switch from a type 5 or 6 meter to a type 4 smart meter
- customers that have only installed one type 5 or 6 meter.

Suppose a customer switches from a type 5 or 6 meter to a type 4 smart meter. NSW DNSPs require that customer to pay for the new type 4 meter and associated services. However, NSW DNSPs will still charge that customer for the types 5 and 6 metering services that are bundled in standard electricity charges even though that customer no longer has a type 5 or 6 meter. If NSW DNSPs unbundled types 5 and 6 metering services, that customer would only pay for the metering services being used.

Customers that have one meter are currently subsidising the metering services of other customers that have multiple type 5 or 6 meters. A household may have two type 6 meters, for example, for solar panels. One type 6 meter would measure electricity use and the other meter would measure solar electricity production. When NSW DNSPs bundle types 5 and 6 metering services into basic network charges, DUOS charges, they average the costs across all customers. This leads to a "cross-subsidy" where customers with one meter are subsidising customers with multiple type 5 or 6 meters. If NSW DNSPs unbundled types 5 and 6 metering services, customers with one meter will not pay a cross-subsidy for customers with multiple type 5 or 6 meters. However, NSW DNSPs will then charge individual customers with multiple type 5 or 6 meters for the additional services associated with owning multiple meters.

2.2 Customers will have more accurate information about costs

When NSW DNSPs unbundle types 5 and 6 metering services from standard electricity charges customers can see the cost of these services as separate charges. Customers can then more easily and accurately compare these to the cost of type 4 metering services. This means that customers can more effectively choose the meter type that suits their needs.

Submissions from the NSW DNSPs suggested that they could achieve transparent costs in ways other than changing how types 5 and 6 metering services are classified, for example, through reporting and the regulatory decision process.⁸ The AER considers that this may improve price transparency. However, consumers would have access to more accurate cost information if the NSW DNSPs unbundled these services from standard electricity charges. This is because there would be a regulatory obligation for NSW DNSPs to directly base the price of type 5 and 6 metering services on the costs of providing these services. The AER considers that this is the most transparent and accurate way of enabling customers to see the costs and charges for types 5 and 6 metering services. Again, customers would be able to make better and more informed choices between types 4, 5 and 6 metering services.

2.3 Better competition in metering services

When NSW DNSPs unbundle the cost of types 5 and 6 metering services from standard electricity charges it is easier for providers of type 4 meters to compete with the NSW DNSPs on price and non-price aspects. This is because customers can make more informed choices between different meter types as well as different metering service providers when customers have all the information they require from service providers to accurately compare costs.

Alternative providers offering type 4 smart meters can compete as a different option to the NSW DNSPs that offer types 5 and 6 meters. These alternative providers could compete more effectively when NSW DNSPs unbundle types 5 and 6 metering services from standard electricity charges:

- Type 4 meter providers may compete with type 5 meter providers on price. This is because types 4 and 5 meters offer similar features, as both are capable of recording how much electricity a customer uses and when they use it.⁹
- Type 4 meter providers may compete with type 6 meter providers on non-price aspects. When choosing between meter types customers may compare both price and non-price benefits. For example, type 4 meters offer optional features not available with type 5 or type 6 meters, such as real-time access for customers to meter data showing their electricity use. A customer may find this beneficial in managing their household demand to take advantage of time based electricity tariffs.

The NSW DNSPs submitted that a classification change was not appropriate and would have no effect on competition. This was because NSW DNSPs are, by law, the only provider of types 5 and 6 metering services.¹⁰ But, all other submissions on metering services supported the AER's preliminary position:

- Metropolis Metering—the bundling of metering service charges in standard electricity charges is inefficient and limits the appeal of type 4 meters to customers, hindering competition¹¹

⁸ DNSPs, Submission on the preliminary F&A, August 2012, p. 13.

⁹ These are interval meters that measure how much electricity is used at least every 30 minutes. More information on meter types is at attachment A.

¹⁰ DNSPs, Submission on the preliminary F&A, August 2012, p. 13.

¹¹ Metropolis Metering, *Submission on the Framework and Approach Paper — Ausgrid, Endeavour Energy and Essential Energy, Metering Services*, 10 August 2012.

- Better Place Australia—customers or energy service providers seeking metering services from alternative providers must pay for metering twice, creating a major barrier to competition in metering services¹²
- Simply Energy—bundled metering charges are a key barrier to competition in metering services for residential and small business customers¹³
- Origin Energy—classifying metering services as alternative control services, and the associated unbundling, will allow for transparent cost allocation and may encourage further competition¹⁴
- Energy Retailers Association of Australia—unbundling metering service costs from standard control service costs is essential.¹⁵

2.4 Promoting consistency across jurisdictions

Where possible, the AER has tried to consistently use classification to unbundle types 5 and 6 metering services across jurisdictions. Attachment D contains further detail on the current classification of metering services in each state, as well as the AER's reasons for its classifications. The AER considers its proposal to unbundle types 5 and 6 metering services in NSW is consistent with its previous decisions, promoting consistency between jurisdictions.

2.5 Addressing the wider impact of metering services

The AER considers different meter types may have different benefits and detriments which may extend beyond the customer. In particular, meters that enable customers to switch to time of use tariffs may have wider benefits. For example, DNSPs may be able to implement better incentives to reduce peak demand by charging customers higher prices for the electricity they use in peak times, and lower prices at off-peak times. However, meters that allow customers and DNSPs to take advantage of this may also be more expensive.

The NSW DNSPs submitted that if they unbundle charges for metering services (when the AER changes their classification) that it will drive customers to lower cost type 6 meters. Further, NSW DNSPs noted that type 6 meters are the least appropriate for facilitating time of use tariffs and better demand management strategies. Finally, the NSW DNSPs considered that unbundling metering services may not promote competition as potential market entrants cannot offer lower cost meters.¹⁶

The AER considers that unbundling will not necessarily drive customers to the lowest cost meters. This is because there are a range of price and non-price benefits for each meter type. The benefits a customer experiences with a type 4 smart meter, over a type 6 meter, may outweigh paying a higher price. Customers can only assess and compare all price and non-price benefits for each meter type when NSW DNSPs unbundle types 5 and 6 metering services. A customer can then make a better, more informed and efficient choice of which meter type best suits their needs. Furthermore, the most suitable meter type will be different for each customer.

¹² Better Place, *Submission on the Framework and Approach Paper*, Ausgrid, Endeavour Energy and Essential Energy - Regulatory control period commencing 1 July 2014, 17 August 2012.

¹³ Simply Energy, *Submission on the Framework and Approach Paper*— Ausgrid, Endeavour Energy and Essential Energy, 17 August 2012.

¹⁴ Origin Energy, *Submission on the Framework and approach paper* – Ausgrid, Endeavour Energy and Essential Energy, 24 August 2012.

¹⁵ Energy Retailers Association of Australia, *Submission on Framework and approach paper* – Ausgrid, Endeavour Energy and Essential Energy, 24 August 2012.

¹⁶ DNSPs, *Submission on the preliminary F&A*, August 2012, p. 15.

The AER also considers that the market for metering services should operate on a transparent, cost-reflective and competitive basis to effectively address the wider benefits and detriments of metering services. When NSW DNSPs bundle types 5 and 6 metering services in DUOS charges, customer choice between metering types is distorted. This also lessens type 4 metering services' ability to compete with type 5 and 6 metering services. When customers have distorted incentives it is more difficult to put in place other incentives or policies to take advantage of the wider benefits, or lessen the wider detriments, of metering services.

The AER also considers that its role is to promote competition and efficiency in accordance with the NEO. Whether or not the lowest cost meters address any wider benefits or detriments of metering services is a policy issue for government.

2.6 Metering policy reforms

The AER recognises that the NSW DNSPs are currently the monopoly providers of types 5 and 6 metering services.¹⁷ This means that type 5 and 6 metering services are not contestable. In other words no one else can offer these meters. However, the AER considers that unbundling these services (by changing their classification) will enhance competition in the future if contestability for types 5 and 6 metering services changes. If NSW DNSPs continue to bundle these services in standard electricity charges, any future contestability changes to improve competition may be far less effective.

The AEMC recommended introducing a new framework in the NER that provides for competition in metering and data services for residential and small business consumers. The AEMC also recommended removing the option of a government mandated roll out of smart meters in the National Electricity Law. The AEMC stated that the NER will require that smart meters be installed in defined situations (i.e. new connections, refurbishments and replacements). The AEMC considered that the following were necessary to facilitate its recommendations:¹⁸

- the NER removing the distinction between the responsibilities for type 4 meters and types 5 and 6 meters (based on DNSP exclusivity)
- DNSPs unbundling metering costs from standard electricity charges.

DRET noted in its Energy White Paper that consumers potentially had greater choice and flexibility in managing energy bills and energy use with 'smart' meters. DRET also stated that service providers can benefit from the way 'smart' meters allow them to manage network loads. DRET flagged that the Australian Government will develop a framework to promote consumers installing 'smart' meters on a large scale. DRET stated that a market-driven rollout of smart meters where providers negotiate deployment and costs directly with consumers was favourable. This was because it overcomes concerns about mandated approaches.¹⁹

¹⁷ Clause 7.2.3(a)(2) of the NER provides that a DNSP, as the local network service provider, is the responsible person for all types 5 and 6 metering installations.

¹⁸ AEMC, *Final report, Power of choice – giving consumers options in the way they use electricity*, 30 November 2012, pp. 82–89.

¹⁹ Department of Energy and Resources, *Energy White Paper 2012: Australia's energy transformation*, November 2012, pp. 162–163.

3 A new approach to regulating metering services

The AER has established the reasons for NSW DNSPs to unbundle types 5 and 6 meters. In this section the AER sets out the classifications that will enable NSW DNSPs to unbundle types 5 and 6 meters from standard electricity charges, also called distribution use of system (DUOS) charges.²⁰ To do this the AER proposes to separate metering services into different components. The AER then proposes to classify each of these components according to its particular characteristics.

3.1 Components of metering services

While not explicitly defined in the NER, the AER considers that the following component services make up metering services:

- meter provision—the capital cost of purchasing the metering equipment
- meter installation—on site meter connection at a customer’s premises
- meter maintenance—works to inspect, test, maintain and repair meters
- meter reading—quarterly or other regular meter reading
- energy data services—the collation, processing, storage and provision of access to energy data for the purpose of providing usage information to retailers, customers or other parties as required.²¹

These components of metering services are consistent with the NER, submissions from DNSPs, and broadly similar to the AER’s approach in other decisions.²² The AER did not breakdown metering services into these components in its preliminary F&A. Therefore it did not set out a view on how it should regulate these components. The following sections outline the AER’s views on how it should regulate the components of types 5 and 6 metering services.

3.2 Approach to classification

The AER can choose not to classify a service the NSW DNSPs provide (unclassified services) where it is confident that the service is provided in a competitive market. On the other hand, where the AER considers that it should regulate a service, it can classify these as “direct control services” or as “negotiated services”.

Typically, for negotiated services the DNSP is the only provider but customers negotiate prices on a reasonable basis. Generally, few services are suitable to be negotiated services. Direct control services are those that the AER regulates directly.

²⁰ DUOS refers to the distribution use of service charges that arise from use of the network. These charges represent the unavoidable cost of network access.

²¹ Chapter 10 of the NER defines ‘energy data services’ as the services that involve: collation of energy data from the meter or meter/meter association data logger; the processing of the energy data in the metering installation database; storage of the energy data in the metering installation database, and the provision of access to the data for those parties that have rights of access to the data.

²² NER, schedule 7.2;
NER, chapter 10;
DNSPs, Submission on the preliminary F&A, August 2012, pp. 15–16;
See attachment B for more detail on the AER’s other decisions on metering classification.

Once the AER decides to classify a service as a direct control service, it needs to decide how DNSPs will charge customers for that service. The AER does this by further classifying a direct control service as one of the following:

- “Standard control services” (bundled charges) allow the NSW DNSPs to charge customers through DUOS charges. These are the charges that all customers must pay.
- “Alternative control services” (unbundled charges) allow the DNSPs to levy separate charges on individual customers only for the services each customer uses.

Attachment B includes further information on the steps the AER must take in classifying services, and the range of service classifications.

3.3 The AER’s revised position

The AER considers that it should separate types 5 and 6 metering services into component services and classify each as follows:

- change the classification of types 5 and 6 meter provision, maintenance and reading services to alternative control (unbundled) services
- change the classification of types 5 and 6 meter installation services to not classify (not regulate) these services
- keep the same classification for types 5 and 6 energy data services, including the costs in standard control services.

The AER must also consider the classification of type 7 metering services. These are a special type of unmetered connection used, for example, for public lights. The AER considers that all type 7 metering services should remain standard control (bundled) services.

Overall, the AER considers that the NSW DNSPs should unbundle metering services. However, the AER considers that unbundling is not appropriate for some components because of their characteristics. The AER’s discusses its reasons in the following sections.

3.3.1 Types 5 and 6 meter provision, maintenance, and reading—alternative control services

The AER will classify the provision, maintenance and reading of types 5 and 6 meters as alternative control services. This is so that each customer only pays for services they use. The AER considers that this classification is clearly more appropriate and is beneficial to customers.²³ In addition, the AER considers that NSW DNSPs can directly attribute the cost of providing these services to the customers that use them. Therefore, the NSW DNSPs can avoid the costs of providing these services if a customer switches from a type 5 or 6 meter to a type 4 meter, or chooses a different metering provider.

The NSW DNSPs submitted that there would be significant administrative costs in moving away from a standard control classification as they would require more internal resources.²⁴ The AER

²³ As outlined in section 2.

²⁴ DNSPs, Submission on the preliminary F&A, August 2012, p. 17.

acknowledges the NSW DNSPs would incur some costs in implementing its revised position. However, it considers the potential benefits would, in the long run, outweigh the administrative costs.

3.3.2 Types 5 and 6 meter installation—unregulated services

The AER considers that it should not classify, and therefore not regulate, meter installation services for types 5 and 6 meters. The AER considers that this classification is clearly more appropriate because the Accredited Service Provider (ASP) scheme in NSW creates contestability in meter installation. Also, the AER understands that significant competition exists in the installation market in NSW.

The NSW DNSPs noted that the ASP scheme in NSW is an important difference between NSW and other jurisdictions. In NSW, the *Electricity Supply Act 1995 (NSW)* and *Electricity Supply (General) Regulation 2001 (NSW)* establish a contestability framework. This framework means that electricity customers can hire ASPs to carry out connection works including installing metering.²⁵

3.3.3 Types 5 and 6 energy data services—standard control services

The AER considers that types 5 and 6 energy data services should remain standard control services because no other classification is clearly more appropriate. The AER considers that it is reasonable to attribute these services to the entire customer base through DUOS charges. This is because the NSW DNSPs cannot directly attribute the costs of providing these services to individual customers.

The NSW DNSPs submitted that the costs related to energy data services are shared and are somewhat independent of the number of customers with each meter type. For example, it would cost the NSW DNSPs the same to provide IT systems for data storage regardless of the number of customers with each meter type.²⁶ These costs are fixed and NSW DNSPs cannot avoid them even if a customer switches to an alternative meter provider.

3.3.4 Type 7 metering services—standard control services

The AER considers that type 7 metering services should remain standard control services as there is no other classification which is clearly more appropriate. This is because The AER considers that there would be no net benefit from unbundling type 7 metering services from DUOS charges.

A type 7 metering installation is an unmetered connection point. This means that a device is connected to the network and uses electricity but does not have any meter. Streetlights and other public lights like traffic lights are examples of type 7 metering installations. DNSPs charge customers with type 7 metering installations by estimating the unmetered connection's usage using standard data and calculations. For example, a DNSP uses the total time the lights were turned on, the number of lights, and the light bulb wattage to calculate street light electricity usage. Type 7 metering services are, therefore, energy data services. The AER considers that the incremental costs involved in providing type 7 metering services are likely to be minimal.

²⁵ See s. 29 of the *Electricity Supply Act 1995* and r. 3 of the *Electricity Supply (General) Regulation 2001*. The installation of electricity meters is defined as a 'contestable service'.

²⁶ DNSPs, Submission on the preliminary F&A, August 2012, p. 20.

3.4 Impact of the AER’s revised position on prices for customers

The AER considers that its revised position would have a range of non-price benefits for customers. Specifically, they would promote competition and provide customers with more information and greater choice. Table 3.1 outlines what the likely price impact on customers would be from the AER’s revised position.

Table 3.1 Impact of the AER’s revised position on the prices for households and small businesses

Revised position	Price impact on customers	
Changing the classification of types 5 and 6 meter installation services to unregulated services	None	Customers already pay for meter installation in NSW because the ASP scheme creates contestability in NSW.
Keeping the classification of types 5 and 6 energy data services as standard control services	None	Charges for this service would remain in standard control services, bundled in DUOS charges.
Keeping the classification of type 7 metering services as standard control services	None	Charges for this service would remain in standard control services, bundled in DUOS charges.
Changing the classification of meter provision, maintenance and reading services for types 5 and 6 meters to alternative control services. Standard network charges (DUOS charges) should decrease as charges for these metering services will be taken out. However, this decrease is fully or partly offset by new metering service charges paid by customers depending on the services they use.	None	Customers with a single type 5 or 6 meter would see new charges for these services. But, these are charges customers were already paying becoming visible.
	Better off	Customers with one or more type 4 meters would no longer pay for these services in DUOS charges. Customers with a single type 5 or 6 meter would no longer subsidise customers with multiple type 5 or 6 meters who use additional metering services.
	Worse off	Customers with more than one type 5 or 6 meter would pay new charges for the services associated with owning more than one type 5 or 6 meter. NSW DNSPs would now attribute these charges to those customers, rather than the entire customer base.

A Meter types

All customers must have a metering connection which measures how much electricity they use. In turn, this determines how much a customer pays in electricity usage charges.²⁷ Different meter types measure usage in different ways, and the AER may classify each meter type differently. There are seven different types of metering installations. Generally, the type of meter a customer has is determined by the amount of electricity they are likely to use each year:

- **Small customers** consume less than 160 MWh of electricity per annum and are candidates for types 4, 5 and 6 meters.
- **Large customers** consume more than 160 MWh per annum and are candidates for types 1–4 meters.
- **Unmetered connections** are candidates for type 7 meters. For example, a type 7 meter is connected to a public light to confirm it is operational but does not record any meter reading.

The NER does not explicitly define metering services. But the AER considers they are ‘distribution services’. That is, the AER considers the DNSPs provide metering services by means of, or in connection with, a distribution system.²⁸ Table A.1 shows the features of each meter type.

Residential and small business customers are generally eligible for types 4, 5 and 6 meters which have the following features:

- **Type 4 meters** are for customers that use less than 750 MWh of electricity per annum. These are interval meters which measure how much electricity is used by a customer at least every 30 minutes. Type 4 meters are contestable and DNSPs or any other accredited provider may provide them. Type 4 meters are meters that are not otherwise type 5 or 6 meters, and include ‘smart’ meters with remote communication capabilities.
- **Type 5 meters** are for customers that use less than 160 MWh of electricity per annum. These are a standard type of interval meter DNSPs provide.
- **Type 6 meters** are also for customers that use less than 160 MWh of electricity per annum. These are a standard type of accumulation meter DNSPs provide. Accumulation meters measure how much electricity a customer used from the moment the DNSP installed it.²⁹

²⁷ NER, cl. 7.3.1A(a).

²⁸ NER, chapter 10. A distribution system is defined in chapter 10 of the NER as a ‘distribution network, together with the connection assets associated with the distribution network, which is connected to another transmission or distribution system’.

²⁹ The quantity of electricity used in any given period is determined by subtracting the previous reading from the current reading.

Table A.1 Types of metering installations

Type	Description	Comments
1	Flows greater than 1 000 GWh per annum	
2	Flows between 100 and 1 000 GWh per annum	
3	Flows between 0.75 and 100 GWh per annum	
4	Flows less than 0.75 GWh per annum (except where these metering installations are otherwise a type 5 or type 6 metering installation). These include interval meters such as 'smart' meters.	The type structure refers to the quantity of electricity flowing through the connection point. These services are contestable and the AER currently classifies them as unregulated services.
5	Interval meters which DNSPs read manually, with a load cap which the jurisdiction sets between 0 and 0.75 GWh per annum. This includes type 5 meters that have 'smart' metering attributes that do not impose higher costs than necessary on DNSPs to provide the basic requirements of a standard type 5 interval meter.	The type structure refers to both the quantity of electricity flowing through the connection point and other characteristics. These services are direct control services that the AER regulates. Each jurisdiction determines the load cap for type 5 and 6 meters, and this overlaps with the coverage of type 4 meters. The range for type 5 metering installations is between 0 and 160 MWh (0.16 GWh) in all jurisdictions except Queensland, where the range is between 0 and 100 MWh. ³⁰
6	Accumulation meter, read manually or electronically, with a load cap set by the jurisdiction between 0 and 0.75 Gwh per annum.	
7	Unmetered connection point.	A type 7 metering installation is not really a meter. A type 7 metering installation is, for example, a public lighting connection. An algorithm which makes assumptions about electricity usage is used to estimate total usage

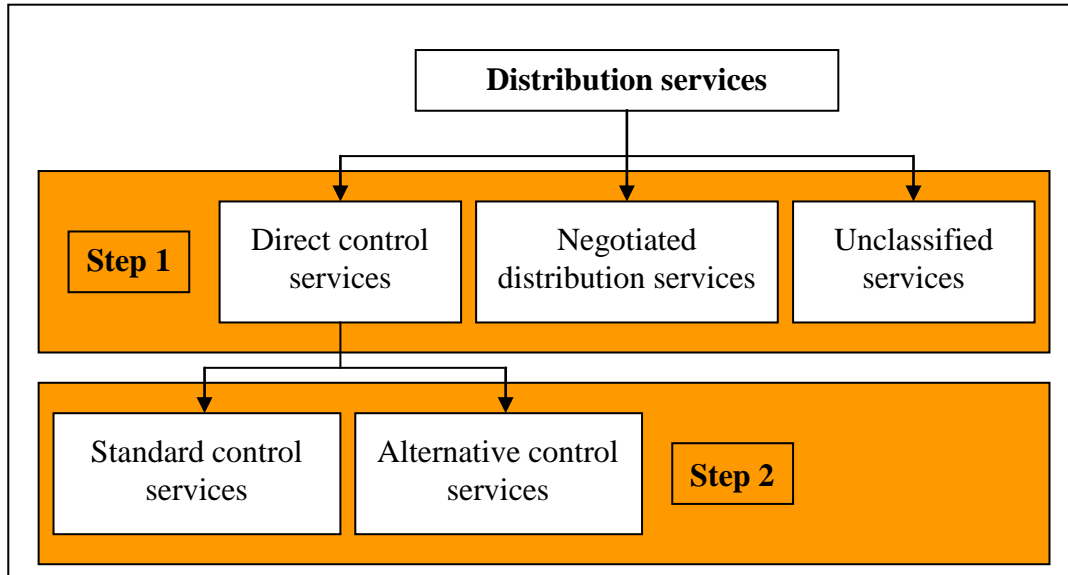
Source: AEMC, *Rule determination – national electricity amendment integration of NEM metrology requirements rule 2008*, 6 March 2008, pp.7–8; AER analysis.

³⁰ AEMC, *Rule determination – national electricity amendment integration of NEM metrology requirements rule 2008*, 6 March 2008, p 8.

B Classification of services under the NER

The AER classifies the services DNSPs provide, including metering services. Figure B.1 outlines the service classification process.

Figure B.1 Service classifications available to the AER



Source: NER, chapter 6, part B.

The AER may classify services DNSPs provide, including metering services, as one of the following:

- **Direct control services.** The AER directly regulates these. DNSPs can charge customers to recover the cost of providing these services. The following classifications determine how much DNSPs charge:
 - **Standard control services** allow the DNSPs to charge customers through distribution use of system (DUOS) charges, which all customers who use the network must pay. The DNSPs recover these costs from all customers, bundling together the charges for all standard control services in DUOS charges.
 - **Alternative control services** allow the DNSPs to charge customers individually. DNSPs unbundle the charges for each service. They are also separate to DUOS charges and charges for other services.
 - The control mechanisms that the AER applies to standard control and alternative control services determine the price of a direct control service. This paper does not discuss issues relating to control mechanisms and their application.
- **Negotiated services.** The AER does not directly regulate these. However, the AER approves a negotiating framework for the DNSPs and customers to agree on the terms and conditions of access. A customer may lodge an access dispute with the AER if they are unable to agree on the terms of access with a DNSP
- **Unclassified services.** The AER does not regulate these.

The AER must take the following steps in classifying services such as types 5–7 metering services:

- Determine whether a service a DNSP provides is a distribution service.³¹ Types 5–7 metering services are one of the distribution services DNSPs provide that are subject to AER regulation.
- Classify distribution services as either direct control services or negotiated distribution services.³²
- Classify direct control services as either standard control services or alternative control services.³³ The NER does not regulate services the AER does not classify.

The AER must also have regard to the following when classifying services such as types 5–7 metering services:

- In classifying services that the AER has previously regulated the AER must act on the basis that, unless a different classification is clearly more appropriate, there should be no departure from a previous classification.³⁴
- In classifying direct control services as either standard control services or alternative control services, the AER must have regard to the following six factors in clause 6.2.2(c) of the NER:³⁵
 1. the potential for development of competition in the relevant market and how the classification might influence that potential
 2. the possible effects of the classification on administrative costs of the AER, the DNSP and users or potential users
 3. the regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made
 4. the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction)
 5. the extent that costs of providing the relevant service are directly attributable to the customer to whom the service is provided
 6. any other relevant factor.

³¹ Chapter 10 of the NER defines a 'distribution service' as 'a service provided by means of, or in connection with, a distribution system'. Chapter 10 of the NER defines a 'distribution system' as 'a distribution network, together with the connection assets associated with the distribution network, which is connected to another transmission or distribution system. Connection assets on their own do not constitute a distribution system.'

³² NER, cl. 6.2.1.

³³ NER, cl. 6.2.2.

³⁴ NER, cl. 6.2.1(d) and 6.2.2(d).

³⁵ NER, cl. 6.2.2(c).

C Consultation and submissions on metering classification in NSW

In December 2011 the AER published its first consultation paper on classifying of services in the ACT and NSW, The AER sought comment on the current classification of types 5–7 metering services, and whether a change was necessary.³⁶ In response to the consultation paper the NSW DNSPs submitted that types 5–7 metering services should remain standard control services.³⁷

The AER published its preliminary F&A for NSW on 25 June 2012. Table C.1 summarises submissions on the F&A. These submissions expressed differing views on the AER's preliminary position:

- the NSW Distribution Network Service Providers (DNSPs) and Energex submitted that types 5–7 metering services should remain standard control services
- all other submissions on metering services supported the AER's preliminary position.

Stakeholders also expressed these differing views during the AER's two workshops classifying services held on 19 March 2012 and 19 July 2012.

³⁶ The AER specifically asked whether: metering services (types 5–7), as adopted in the current determinations, was appropriate; the issue of metering services (types 5–7) being charged with DUOS charges was still current; metering services (types 5–7) should be separated from DUOS charges; and if metering services (types 5–7) were separated from DUOS charges, the type of service these should be classified as and the control mechanism that should be applied; AER, Consultation Paper, *Matters relevant to the framework and approach ACT and NSW DNSPs 2014–2019, Classification of electricity distribution services in the ACT and NSW*, December 2011, p. 18.

³⁷ Ausgrid, *Response to the AER's consultation paper on classification of electricity distribution services in NSW and the ACT*, 21 February 2012, pp. 1 and 20; Endeavour Energy, *Classification of electricity distribution services in the ACT and NSW*, 15 February 2012, p. 4; Essential Energy, *Submission on the classification of distribution services in the ACT and NSW*, 17 February 2012, p. 5.

Table C.1 Summary of submissions on types 5–7 metering services received in response to the AER’s preliminary F&A

Party	Summary of submission
NSW DNSPs - Ausgrid, Endeavour Energy and Essential Energy (Joint submission)	<p>Disagrees with the AER’s proposed classification of types 5-7 metering services as alternative control services and maintains the view that metering types 5-7 services should remain a standard control service, with costs recovered as part of DUoS charges.</p> <p>Sets out arguments relating to the following:</p> <ul style="list-style-type: none"> • Transparency of costs • Existing contestable arrangements and market efficiencies • Development of competition in the market for 5-7 metering services • Administrative burden and cross subsidisation • Multiple metering installations • Costs directly attributable to customers • Other factors • Consistency in classification
Metropolis Metering Assets Pty Ltd	<p>Supports the AER’s proposed classification of types 5-7 metering services as alternative control services and to unbundle those service charges from DUoS charges.</p> <p>When electricity retailers (and therefore consumers) opt for a Type 4 smart meter service, they will continue to pay for the NSW distributors’ type 5-7 metering services. This undermines the business case for residential customers uptake of smart meters.</p> <p>The lack of distributor price transparency/bundling of metering services charges within DUoS acts as a significant barrier to competition that impedes the take-up of smart meters within NSW.</p> <p>All metering in NSW is contestable. Retailers have the right of choice under the NER and the consumer has a right of choice under the ASP Scheme. However, the financial benefit from exercising choice is diminished when the customer continues to pay the local Distribution business for a service it no longer provides.</p> <p>The bundling of metering services within DUoS is inherently inefficient and inequitable.</p>
Better Place Australia	<p>Strongly support the AER’s proposed classification of types 5-7 metering services as alternative control services.</p> <p>Customers or energy services providers seeking to procure innovative metering services from alternative providers other than the distributor, must pay for metering twice. This creates a major barrier to competition in metering services and in those energy services markets which enable metering services.</p> <p>Unbundling metering services charges from network use of system charges at small customer sites in NSW is a critical priority. This step will encourage innovation in metering services and stimulate competition in other energy services – like electric car charging – which rely on metering technology.</p>
Energex	<p>Supports classifying metering services as direct control services but not as alternative control services. Energex agrees with the NSW DNSPs that increasing these services’ contestability should not be a driver for consideration at this point. The cost of unbundling these services is neither efficient nor practical.</p> <p>Energex agrees that where a customer requests special metering services it is more appropriate for the AER to classify the service as an alternative control service.</p>

Party	Summary of submission
Simply Energy	<p>Strongly support the AER's proposed classification of types 5-7 metering services as alternative control services.</p> <p>The bundling of metering charges into network charges is one of the key barriers to competition in metering services for residential and small business customers. There has been reduced opportunity for NSW customers to access the range of products and services that innovative metering services could provide them. Such services include more timely and accurate billing, reduced bill shock and products and services that allow customers to better manage their energy consumption and costs. It has also restricted the potential for more efficient and lower cost metering services, such as remote re-energisation and de-energisation.</p>
Origin Energy	<p>Supports classifying metering services as alternative control services, with a view to encouraging further competition in these services. Unbundling these costs will allow for transparent cost allocation, creating more favourable conditions for further competition in metering service provision.</p>
Energy Retailers Association of Australia	<p>Supports the AER's preliminary position on classifying metering services. Agrees that the unbundling of metering service costs from standard control service costs is essential.</p>
Riverina Eastern Regional Organisations of Council	<p>Agrees with the AER's preliminary position to classify metering services (types 5-7) as direct control assets and further as alternative controls services, while all other metering remains unclassified.</p> <p>The metering services that DNSPs provide are more efficiently undertaken as part of integrated distribution functions and should be charged through DUOS. However given the substantial market power the NSW DNSPs possess it is extremely important that the AER classify these services as direct control assets.</p>

D Current classification of metering services in each jurisdiction

The breakdown and classifications of types 5–7 metering services in the current regulatory control period in each jurisdiction are shown in table D.1.

Table D.1 Classification of types 5–7 metering services in each jurisdiction

State	Control period	Direct control services		Negotiated services
		Standard control	Alternative control	
ACT	2009–14	Provision of metering data to retailers	Provision of metering services for small customers	
NSW	2009–14	Types 5–7 metering services		
QLD	2010–15	Types 5 to 7 metering services Scheduled meter reading Unscheduled meter reading-non-chargeable Metering investigation Maintaining and repairing meters and load control equipment Commissioning of metering and load control equipment	Types 5 to 7 non-standard data services, ancillary metering services Metering enhancement	
SA	2010–15	Type 6 energy data services (except the quarterly meter read service) Type 7 metering services	Type 6 meter provision services, and quarterly meter read services Types 1 to 4 meter provision services for certain large customers with meters installed before 1 July 2000	Types 1 to 5 metering services Types 6 and 7 metering services for non-standard meters Special meter readings
VIC	2011–15		'Smart' meters are deemed as type 5 meters for the mandated roll out.	
TAS	2012–17		Types 5 to 7 standard metering services, and special meter readings and testing	Meter alteration Meter testing Removal of meters

The current classification of types 5–7 metering services is slightly different in each jurisdiction. This is because the AER developed its approach in each jurisdiction having regard to:

- the requirements of the NEL and NER

- the approach of the state regulator that had determined the previous classification, which was different in each jurisdiction³⁸
- each jurisdiction's unique characteristics
- each component of types 5–7 metering services' different characteristics may warrant a different classification approach.

This section summarises the AER's reasons for its approaches in table 2.2.

Australian Capital Territory and New South Wales

The AER made the 2009–14 ACT and NSW distribution determinations under the transitional chapter 6 rules. These transitional provisions did not provide for a separate assessment of classification.

In its 2009 final decision the AER supported greater contestability in metering service provision. However, there was no framework and approach process and limited time available to make a proper assessment. Therefore, the AER did not consider it appropriate to change the classification.³⁹ The AER therefore adopted the Independent Competition and Regulatory Authority's (in the ACT), and the Independent Pricing and Regulatory Tribunal's (in NSW) approaches.

Queensland

In almost all instances, DNSPs provide types 5-7 meters as standard control services in Queensland. The AER adopted the Queensland Competition Authority's approach in classifying types 5–7 metering services because it did not consider that a different classification was clearly more appropriate.

The AER considered that there was a lack of potential for competition to develop in the market for 'small customer' metering services in the 2010–15 regulatory control period. However, the AER considered that it would classify the types 5–7 metering services as alternative control should competition develop in the market.⁴⁰

South Australia

The AER adopted the Essential Services Commission of South Australia's (ESCOSA) approach for types 5 and 7 metering services, but not for type 6 metering services for the following reasons:⁴¹

- ESCOSA deemed type 5 metering services excluded services. The AER classified these as negotiated services, as it did not consider that a different classification was clearly more appropriate.
- ESCOSA deemed type 6 metering services prescribed services. The AER considered that a different classification was clearly more appropriate as follows:

³⁸ In classifying services that have previously been subject to regulation the AER must act on the basis that, unless a different classification is clearly more appropriate, there should be no departure from a previous classification; NER, cl. 6.2.1(d) and 6.2.2(d).

³⁹ AER, *Final decision, New South Wales distribution determination 2009–10 to 2013–14*, 28 April 2009, p. 22; AER, *Final decision Australian Capital Territory, distribution determination, 2009–10 to 2013–14*, 28 April 2009, p. 6.

⁴⁰ AER, Queensland draft decision, November 2009, pp. 14–17.

⁴¹ AER, *Final Framework and approach paper, ETSA Utilities, 2010–15*, November 2008, pp. 31–33; AER, *Draft decision, South Australia Draft distribution determination 2010–11 to 2014–15*, 25 November 2009, pp. 13–20; AER, *Final decision, South Australia distribution determination 2010–11 to 2014–15*, May 2010, pp. 8–10.

- the AER classified energy data services as standard control, as these are 'fixed' services provided independent of the number of customers on different meter types
- the AER classifies all other type 6 metering services as alternative control as these are 'variable' services which DNSPs may avoid where a customer switches to a type 4 or 5 meter.
- ESCOSA deemed type 7 metering services prescribed services. The AER classified these as standard control services, as it did not consider that a different classification was clearly more appropriate.

Victoria

In Victoria, the Government designated 'smart' meters as type 5 meters for its mandated roll out. This means that 'smart' meters are not contestable in Victoria. The *Victorian Advanced Metering Infrastructure Order in Council* (AMI) regulates metering service charges.⁴²

The AER notes that in the current regulatory control period the Victorian DNSPs' standard metering services for small customers are comparable to an alternative control service classification as DNSPs set charges separately to DUOS charges.⁴³ The AER's role is to review and approve the budgets and charges for the rollout of AMI according to the 2008 AMI Order in Council.⁴⁴

Tasmania

The AER adopted the Office of the Tasmanian Economics Regulator's (OTTER) approach and classified types 5–7 metering services under alternative control. OTTER already regulated types 5–7 metering services through a price cap on the maximum daily allowance for each class of meter, which is unique to Tasmania.⁴⁵

⁴² AER, *Final Framework and approach paper, Victorian electricity distribution regulation, Citipower, Powercor, Jemena, SP AusNet and Uniting Energy, regulatory control period commencing 1 January 2011*, May 2009, p. 3.

⁴³ ESC, *Final framework and approach paper: Volume 1, Guidance paper, June 2004*, p. 138; and *Electricity distribution price review, Final decision Volume 1*, October 2006, p. 510.

⁴⁴ AER, *Preliminary positions, framework and approach paper, VIC DNSPs, regulatory control period commencing 1 January 2011*, 19 December 2008, p. 11.

⁴⁵ AER, *Preliminary positions, Framework and approach paper, Aurora Energy Pty Ltd, Regulatory control period commencing 1 July 2012*, June 2010, pp. 17–32