Enabling a market-driven smart meter rollout

ERAA smart meter Working Paper 2

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Introduction

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

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

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

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

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

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

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

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

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

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

Drivers of a market-driven rollout

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

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

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

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

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

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

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

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

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

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

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

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

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

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

How a market-driven rollout would work

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

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

Scenario 1: Suburban home without a smart meter

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

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

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

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

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

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

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

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

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

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

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

How has the meter change been paid for?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

How does the market manage this situation?

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

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

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

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

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

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

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

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

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

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

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

How does the market manage this?

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

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

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

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

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

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

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

How does the market manage this situation?

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

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

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

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

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

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

Examples of market-driven rollouts of smart meters

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

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

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

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

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

Further information on New Zealand is found in Box 1.

Box 1: Smart metering in New Zealand

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

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

[14] *ibid*

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

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

Facilitating a market-driven smart meter roll out

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

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

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

About the Energy Retailers' Association of Australia

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