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Your reference
Our reference
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Amendments to the National Electricity Code
Full Retail Competition and Registration of Code Participants

Dear Louis

Thank you for the opportunity to provide comments on the above document.

To give you a little background on our company, Siemens Metering is the largest supplier of electricity meters in the world and the second largest supplier of electricity meters in Australia. We have considerable experience in electricity metering in most countries of the world.

I have not previously commented to the ACCC on the above issue, however I have watched the proceedings with some interest. Most of the comments that I felt it was necessary to make have been more than adequately covered by others. In the Draft Determination of 11 April 2001, however, some commentary has appeared that I felt it was necessary to respond to.

Firstly let me point out that, from a purely technical perspective, a Type 4 meter as defined in the current National Electricity Code is clearly the best way to correctly settle the market and allocate the costs of production. I understand that there is basically universal agreement that this meter type is completely uneconomic for customers with annual consumption below 160MWh, a point of view that I also subscribe to.

In attempting to find and alternative for the Type 4 meter, the industry has settled on two possibilities – the Type 5 "manually-read interval meter", and the Type 6 "accumulation meter" used in conjunction with an applied profile algorithm.

I am not a supporter of the Type 5 meter. The reasons for this are as follows:

a) Economics.

The current price for a utility purchasing a simple accumulation, or Type 6, meter today is under $40. The price of a Type 5 meter today is over $120 – more than three times as much. The ongoing cost to read and process the data is also significantly more expensive, in my view probably more expensive that what has been estimated to date.

It has been suggested that the price of a Type 5 meter could fall to $75. Even if this were true they would still be twice the price of a basic accumulation meter and the data handling costs would still be excessive. In short, we would be throwing out a very economic solution and replacing it with something considerably more expensive. I do not believe that any benefits from settling the market a

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little more accurately would outweigh this cost. This point of view has been supported by numerous consultants' reports with which you are familiar.

In any event, I do not believe that the price of a Type 5 meter will fall to $75.

b) The International Market

Faced with the above economics, it's surprising that we are even talking about a Type 5 meter. This is view is put to me regularly when I am talking to my international colleagues within the metering fraternity. None of them can even understand why such a thing is being considered.

To my knowledge, the Type 5 meter concept is not being used or being contemplated in any other country in the world. This is important because Australia is a very small market for electricity meters, representing only about 0.5% of the world market. We do not have sufficient market size to support low prices unless our meters are built on an international scale. This means we cannot build a meter that is wholly unique to the Australian market, like the Type 5, and expect it to be cheap. From my knowledge of the economics of meter production, I believe any manufacturer contemplating building a Type 5 meter for $75 based on the projected volume in the Australian market would be unlikely to survive for long.

There is a comment in the Draft Determination regarding international meter manufacturers being reluctant to develop interval meters unless a new and replacement strategy was implemented. Let me state categorically that, as the largest of the international manufacturers, Siemens has no plans to develop a manually read single-phase interval meter (Type 5) for this market alone under any circumstances. The only way we would consider such a project is if there was broad international support for the concept across several countries with meter volumes far in excess of that possible in Australia. That support does not exist today and does not appear to be imminent.

c) The Customers

It is sometimes argued that interval meters are necessary to provide correct pricing signals to customers. There is considerable evidence that the vast majority of domestic customers are not in the slightest bit interested in pricing signals. Domestic customers are interested in simplicity. Even with a simple two-rate tariff, studies have shown that, after a brief period of exuberance, domestic customers do not alter their consumption patterns in order to reduce costs. The thought of exposing such customers to wholesale market price movements does not bear thinking about.

It is interesting to note that, in the over 160MWh pa market, where customers arguably have much greater incentive to be interested in pricing based on measured load profiles, virtually all customers buy electricity on the basis of a simple one or two-rate tariff, perhaps with a maximum demand component. Less than a handful of the very largest customers are billed on the basis of the metered load profile.

This is main area where electricity retailers actually add value – by shielding unsophisticated retail customers from the vagaries of the wholesale market.

d) The Code

In embracing the Type 5 meter, I believe the industry has created a monster that threatens to topple the whole concept of full retail competition. By including the Type 5 meter as an option, together with the transfer procedures and possibility of contestability in meter provision that goes with it, the National Electricity Code and the various related State instruments are now so complicated as to be virtually impossible to implement on a large scale. This is precisely why this approach has not been used overseas. We have already seen the date for FRC move out, and there is no doubt in my mind that we will soon see it move out even further. Even when the date comes, it is debatable that we will have a system that will actually be used in practice.