CENTURION

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Mr Sebastian Roberts
General Manager Regulatory Affairs - Electricity
Australian Competition & Consumer Commission
Level 35
360 Elizabeth Street
Melbourne 3000

National Electricity Code Changes
Request for submissions

Extension of Victorian Full Retail Competition Derogations

Dear Mr Roberts,

Thank you for the opportunity to respond to the applications for derogation (Nos A90915, A90916, and A90917 to the National Electricity Code) lodged by the National Electricity Code Administrator (NECA) on behalf of the Victorian Minister for Energy Industries and Resources.

Please accept this letter as our formal submission in response to the applications.

In short, Centurion is of the opinion that the derogations are anti-competitive, stifle innovation and are ultimately detrimental to the interests of electricity consumers. The geographical monopolies for metering services have only served to increase costs and disadvantage the competitive position of 2nd tier electricity retailers.

There is no rational argument to conclude that greater efficiencies in metering services are achieved by maintaining a Distributor monopoly. If the existing arrangements for metering services are truly the most efficient then there can be no risk in opening the market to competition. Retailers will always have the choice of remaining with their current service providers.

The only argument for maintaining a monopoly model over metering services is in recognition that Distributors are inefficient and their practices would not stand-up to the rigours of a commercial market.

Distributors have had over three years to prepare for open competition and there is no justifiable reason to extend the derogation beyond the current expiration date of 30 June 2004.

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Exclusivity was originally introduced as a transitional measure to avoid *perceived* inefficiencies if Retailers were to independently contract meter reading services - which might have resulted in multiple meter readers walking up the same street to attend different sites with an immediate increase in the cost of meter data. The view was that Distributors would be best placed to manage meter reading in geographical franchises.

This rational was as dubious then as it is now. While issuing short-term geographical franchises for meter reading services might have been a legitimate model – there was no need to grant these to Distributors. Overlaying responsibility for retail, distribution and metering services in single corporate entities immediately compromised the benefits of competition.

Furthermore, it remains unclear why the derogation was extended to include meter installation, maintenance and repair, and meter ownership. Activities that could all have benefited from the rigours of competition.

Today, Distributors argue that the derogation should be permanently extended because they are best placed to maintain efficient and low cost metering services. Nothing could be further from the truth.

Distributor services are not particularly efficient resulting in increased costs to electricity Retailers, and ultimately consumers:

- Distributors cannot be relied upon to make reliable meter selection and placement decisions. In Victoria, for example, Distributors installed interval capable meters with the intention of reading them as accumulation (ie. Type 6) meters. But the requirement in Victoria is that interval capable meters must be read as interval meters. As these meters had been haphazardly placed across towns and suburbs some Distributors could not properly account how many or where they had been installed.

  The cost to identify the affected meters, transition market records, upgrade systems and collect both type 5 and type 6 data on integrated routes has increased the overall cost the metering data. Moreover, Retailers were immediately required to accept the data whether they had the capability or not.

- In many instances Distributors do not actually provide metering services themselves.

  - The management of meter reading routes, employment of meter readers, physical collection of data and even the maintenance of meter reading databases and applications is contracted through third parties such as Testing & Certification Australia, Skilled Engineering Limited, Fieldforce, ADTEC Services Pty Ltd, and AMRS.

  - Meter installation, maintenance and repair is largely contracted through companies such as Formway Metering Services Pty Ltd, Utility Asset Management and Thiess-Services.

  Inevitably, the cost of these services is unnecessarily inflated as Distributors add their own margin to the service while double handling service orders when initiated by Retailers.

- Distributors maintain that they have *economies-of-scale* that would be lost if the derogation was lifted. This is a myopic argument predicated on the basis that Distributors operate within geographical boundaries. In a competitive metering services market these boundaries do not exist. If anything, providing metering services across the national electricity market, ought to improve the available economies, not diminish them.

But more to the point, it is in fact the contracted service providers that maintain the *economies-of-scale*. These service providers operate over much wider geographical areas than the Distributors and often for multiple utilities (gas, water and electricity). The economies would not be lost at all and might be improved where the service providers could take advantage of the current circumstances - such as reading gas, water and electricity meters on integrated routes.

- The Victorian Government justifies the derogation on the basis that it provides "simplicity and clarity of obligations"[1] and has "the public benefit of providing streamlined arrangements for access to metering data ….rather than (from) a range of disparate service providers"[2].

  But it is a condition of full retail contestability that data is made available from disparate sources *because* Retailers have customers across multiple network areas.

  Moreover, Retail systems must *currently* support:

  - accumulation data and interval data;
  - data that is provided daily, weekly, monthly or quarterly (depending on the method of data collection used); and
  - data that is not successfully collected at all.

  Lifting the derogation might actually assist Retailers streamline data sources rather than complicating them.

To date the derogation has been an abject failure. There has been next to no innovation in metering since the introduction of full retail competition (largely because of the uncertainty presented by the expiry of the monopoly conditions).

- Data management systems proliferate the market. Each market participant maintains its own store of metering data so that the Meter Data Provider, *financially responsible* Retailer, *local* Retailer, Distributor and NEMMCO hold the same values. Data is continually passed between participants and consistency between the databases has been difficult to maintain – often resulting in back-billing and settlements adjustments.

  Market participants, being competitors, are unwilling to explore avenues to improve data integrity and shared storage efficiencies. Consequently, data costs are significantly higher than necessary and this will only increase with the introduction of more interval meters.

- Due to the current mechanism of recovering asset costs through regulated charges, Distributors have no guarantee that they will recover investments in subsequent price reviews. Accordingly, there is no incentive to invest in the research and development of better technologies and Distributors continue to base their investment decisions not on the quality of the meter and its output, but rather on which option is the cheapest.

  So much so that the Essential Services Commission has had to counter the situation with a proposed mandate to rollout interval meters[3].

Retailers are disadvantaged by the metering decisions Distributors make.

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[1] Application to the Australian Competition and Consumer Commission, 30 March 2004 – page 6.
[2] Ibid. – page 7.
[3] Mandatory Rollout of Interval Meters for Electricity Customers, Draft Decision, Essential services Commission - March 2004

- Distributors are not in a position to determine effective site selection and meter placement strategies. They have no stake in demand side management - rather they are concerned with network efficiency and maximum load capacity and are not exposed to the forces of electricity supply and demand that underpins wholesale price volatility.

  Yet inexplicably, the market affords Retailers no control over where meters are placed.

  Consequently, Retailers are unable to influence consumer behaviours - a complicated mechanism that relies on the development of unique product structures, effectively matching consumers to the most suitable product, trading energy and monitoring consumption against forecasts. All of which rely on metering data across a sufficient number of customers with similar consumption patterns.

- Retailers have advised instances where two element accumulation meters have been replaced by Distributors, without prior consultation, with single element meters. Resulting in hot water and general domestic consumption becoming indistinguishable and impacting existing customer tariff contracts.

- The electricity market *settles by difference* between the boundary value of the 1st tier retailer less the known metering values belonging to 2nd tier retailers. The National Electricity Code requires that Meter Data Agents pass metering data to "Code Participants whose NEMMCO account statement relates to energy flowing through that connection point" to enable settlement reconciliation[4].

  Providing interval data to the first tier retailers gives them an unfair market advantage - allowing them to assess the worth of 2nd tier customers while not providing 2nd tier retailers with the benefit of the same opportunity.

  There are now as many independent second tier Retailers in the Victorian market as there are first tier Retailers. All bar one of these first tier Retailers is affiliated with a Distribution business. Affiliated Distribution/Retail businesses also have the opportunity to target specific sites for interval meter installation to legitimately obtain access to competitor market data.

- Distributor license agreements may very well require "that the default Use of System agreement ….contain terms and conditions which are fair and reasonable, and do not unreasonably discriminate between retailers"[5]. But it cannot be overlooked that independent Retailers wear the full cost of Meter Provider Services whereas margins paid by a Retailer to its affiliated Distributor are (effectively) cancelled-out at the corporation level.

  This is an important point given the independent Retailer has absolutely no choice but to use the services of the Distributor. Only competition between service providers can provide independent Retailers – and ultimately the consumer – with greater price equity for metering services.

We note with surprise the Victorian Government position "that metering competition is not immediately necessary to enable the substantial benefits of full retail competition to be realised"[6] – while paradoxically recognising that less than 262,000 transfers have taken place

[4] National Electricity Code – Section 7.7
[5] Application to the Australian Competition and Consumer Commission, 30 March 2004 – page 9.
[6] Application to the Australian Competition and Consumer Commission, 30 March 2004 – page 6.

since the introduction of full retail competition and that "it will take some time for second tier retailers to establish a customer base"[7].

The lack of competitive transfers at the consumer level is a direct consequence of regulatory barriers – such as the derogations - that stifle product innovation.

In order for any business to be competitive it must itself have access to competitive services. It must be able to shop around for the most efficient service and beneficial price. Electricity retailers have little such opportunity where they are required to source both electricity distribution and metering services from Distributors granted a geographical monopoly.

Consequently, retail electricity products have tended to remain 'generic'. Competition has come in the form of *movie ticket* and *cash rebate* offers rather than any meaningful recognition of consumption patterns.

(It might also be noted that Distributor charges account for approximately 40% of the average household electricity bill while the wholesale cost of electricity accounts for only 15% of the bill.)

Competition for metering services will enable electricity Retailers to source metering data at competitive rates while encouraging innovation among metering service providers - such as Centurion – to provide flexible data options so that product offerings can be better differentiated.

Only by differentiating products can the full benefits of retail competition be realised by consumers.

The Victorian Government argues that "allowing retailers to become responsible for meter provision ….may promote meter churn, which may become a barrier to (customers switching retailers)"[8].

Our view is that meter churn is a necessary and vital component of a competitive market. It promotes innovation to ensure there is no cause to remove the meter upon transfer – and, conversely, transfers are better facilitated where a meter replacement is required (otherwise the customer has to wait for the next meter read).

The negative connotations represented by the term 'meter churn' have to do with the continuing notion that either Retailers or Distributors will own meters. In our dealings with Retailers very few want to be meter owners – what they do want is access to timely and accurate data.

In a competitive market, Meter Owners & Meter Providers are concerned with provision of the physical hardware; Meter Data Agents are concerned with accessing the hardware to obtain data; and Retailers contract Meter Data Agents to obtain data for billing and settlements. In such an environment meter churn will be kept to a minimum because it is in no party's financial interest to replace useful assets – particularly where meter ownership is fully contestable and it is the Meter Owner that bears the financial risk (not the Retailer or the customer).

In conclusion, Centurion Metering Technologies is of the opinion that many, if not all, the concerns raised by the Victorian Government are more imagined than real. The process and

[7] Ibid. – page 8.
[8] Ibid. – page 10.

system issues raised are easily resolved through competition, while most exist today anyway as a result of uncertainty about the contestable nature of such services.

To say that "the risks inherent in introducing a large number of new systems could ….have a negative impact on developing full competition"[9] is, quite simply, absurd. Disaggregation of the State Electricity Commission and the introduction of full retail competition required nothing but the development and implementation of a range of complicated, market enabling systems well beyond the scope of what is required here.

We do not believe that the mandated rollout of interval meters should be a catalyst for extending the derogations beyond 30 June 2004. We do not agree with the recommendations of the Parer Report that Distributors should solely own meters. A mandated target can just as effectively be achieved – perhaps more so – in a competitive environment as in a monopoly.

Competition should now take its place, as initially envisaged, to drive the future development of the market and allow the market to determine who offers the most efficient and affordable services.

Yours sincerely,

Marco Bogaers
Managing Director

[9] Ibid. – page 11.