

**Australian Competition and Consumer Commission**

**Authorisation of amendments to the National Electricity Code**

**Applications for authorisation Nos A90928, A90929, A90930**

**Pre-Determination Conference**

**Friday 14 January 2005**

**Conference Room**

**ACCC office, Level 7, 123 Pitt Street  
Sydney**

**MINUTES**

Ed Willett, a Commissioner with the Australian Competition and Consumer Commission (the ACCC or Commission) chaired the pre-determination conference.

The conference commenced at 9.30am Friday 14 January 2005.

Attendees:

*ACCC staff*

- Sebastian Roberts
- Fiona Walker
- Christopher Streets
- Gabrielle Ford

*Interested parties*

Vincent D'Agostino (Intermoco Solutions); Steve Black (Intermoco Solutions); Harry Colebourn (EnergyAustralia); Alex Miller (EnergyAustralia); Graeme Lees (EnergyAustralia); Pat Grant (EnergyAustralia); Bob Bosler (NEMMCO); Robert Petersen (AGL); Sam Mangion (Ampy Metering); Russell Caird (Commercial and Strategic Solutions); Elizabeth Stephens (NSW Department of Energy, Utilities and Sustainability); Jim Wellsmore (Public Interest Advocacy Centre); Cathy Zoi (Bayard Capital).

## Harry Colebourn, EnergyAustralia

- Noted that EnergyAustralia supports the extension of the derogation for type 5 meters, but has concerns with the ACCC's proposed condition of authorisation as it could increase prices, and complexity of technical issues.
- Stated that the threshold for type 5 metering contestability should be increased from customers who consume >100 MWh to >160 MWh per annum.
- Argued that retailers are not innovative and do not have incentives to innovate in small customer metering whereas Network Service Providers (NSPs or Networks) face incentives including the impact of demand growth on their costs, and the ability to leverage off existing assets to achieve economies of scale, as well as weighted average price caps.
- Stated that the Draft Determination threatens regulatory risk for distributors by way of stranded metering assets.
- Argued that since the introduction of Full Retail Competition (FRC), retailers just want accurate, low cost metering data and networks are best placed to provide this.
- Argued that metering costs account for only 1% of customers' bills. Possible gains of competition would be outweighed by transaction costs associated with competition.
- Explained that EnergyAustralia faces the challenge of peak demand growth which has exceeded energy growth in recent years. On hot days, consumption more than doubles and this has a significant impact on system demand and capital expenditure (capex).
- Explained that long run marginal cost (LRMC) is approximately 80% of Average Cost and this is strongly weighted by investment to meet peak demand. This shows that networks face strong incentives to mitigate demand, but retailers do not.
- Argued that network costs are strongly related to load peaks, whereas pool price does not correlate well with system load. A tariff involving time of use (TOU) and seasonal TOU would be appropriate and this is only possible with the use of interval meters.
- Stated that the distribution weighted average price cap adds incentives by encouraging distributors to exploit opportunities for cost savings. An example is to lower capex by reducing peak demand. Automated Meter Reading (AMR) could reduce metering costs and lower research costs.
- Argued that networks are better placed to be the Responsible Person for small metering customers because they can leverage off their existing assets to achieve economies of scale (eg power line carrier technology). Networks have a longer planning horizon and therefore recover their costs over a longer time period than retailers might.
- Described EnergyAustralia's TOU meter rollout. EnergyAustralia's analysis shows that savings that exceed the cost of installation can be had for customers who consume more than 15 MWh per annum.
- Stated that EnergyAustralia is the first company to roll-out interval meters/TOU meters to its customers. From 1 January 2005 all new meters and upgraded

connections will consist of TOU meters. Stage 1 of the initiative involves the installation of meters; the introduction of communications or AMR would be the next step, and only networks would be able to implement this. Stage 3 would be rollout of TOU meters to the 15-40 MWh segment. 3-rate TOU pricing will be available from 1 January 2005 to all new customers, and a seasonal pricing structure will potentially be available for TOU customers from 1 July 2005

- Benefits of cost reflective network pricing have been assessed by the National Institute of Economic and Industry Research (NIEIR) whose study projected elasticity growth of -0.37 over five years and significant benefits for customers consuming more than 15MWh per annum.
- The analysis concluded that the network is the main beneficiary of TOU and seasonal pricing, and that such tariffs would not be very attractive for retailers. The network is also the main potential beneficiary of critical peak pricing.
- Concluded that networks are the main beneficiary of seasonal and critical peak pricing whereas the retail sector is not sufficiently coordinated to benefit from such pricing.
- Stated that networks need regulatory certainty. The stranded asset risk from the ACCC decision may stop EA introducing interval meters. Retailers have no interest in metering innovation and metering competition could strand networks' assets with potential benefits foregone, including less demand management, less innovation, higher network capital augmentation, and higher consumer bills.
- In the discussion following the presentation, AGL challenged EnergyAustralia's statement that only networks were innovative etc, noting its own prepayment and interval meter trials and that in NSW retailers have had little opportunity to be innovative. AGL also questioned whether metering costs were really only 1% as stated by EnergyAustralia, and said that for example, special read costs in EnergyAustralia's distribution area are >\$30, and that this is three times the cost in some other areas.

## Graeme Lees, EnergyAustralia/TCA

- Testing and Certification Australia (TCA) is a Metering Provider wholly owned by EnergyAustralia.
- Noted that the removal of the derogation wouldn't change TCA's role as a Metering Provider, just its customer base.
- Outlined EnergyAustralia's experience in the metering types 1-4 sector. Noted that contestability only works in this sector because higher margins allow for higher meter costs and communications systems. Noted that most large customers consider metering as a combined product with their energy supply rather than a separate product.
- Stated that extending contestability in the metering market would make asset management more difficult; raise uncertainty and complexity about who is responsible for meter reading and testing; and would cause loss of the efficiencies that arise from having centralised control of metering. There would also be increased customer complaints due to a lack of understanding about changes in metering responsibility, and billing arrangements would become more complex.
- Noted that the >100 MWh per annum segment for type 5 meters has been contestable in New South Wales and there has not been any metering competition to date.
- Predicted that under competition, the ownership of meters would be split between the three NSW retailers instead of the two networks. There would not be sudden intense competition for customers and customers would only choose to change retailer once and stick with that retailer. Argued that retailers would employ strategies to create barriers to switching which might raise issues under the *Trade Practices Act 1974*.
- Argued that network engineers are innovative, but to date, retailers have not been innovative. Reiterated Harry Colebourn's argument that networks have incentives to pursue TOU metering and pricing as they want to flatten peak load and spread it across more time bands.
- Stated that TCA is developing remotely read meters (AMR) and said that the projected costings would not be viable for retailers unless they had distributor buy-in. Therefore, EnergyAustralia/TCA are looking at AMR installation techniques.
- Stated that guaranteed reads from AMR data would avoid estimation errors, and reduce call centre processes. Argued that funding from networks makes it possible.
- Argued that forms of AMR could achieve positive innovations resulting in retail churn. For example, mandated AMR in high rise apartments could increase competition because retailers would have greater access to data. Secondly, networks have incentives to fund pre-payment meters because they send a prompt TOU signal. Once pre-payment meters are installed they would be attractive to retailers because there would be a guaranteed income.
- Argued that rather than pursue contestable metering, we should look at ways to drive innovation.

- Stated that Accredited Service Providers (ASPs) in NSW add a level of competition because they are not employed by NSPs. Suggested it would be a good idea to introduce the ASP scheme in other jurisdictions and that this would not impact on innovation.

## **Steve Black, Intermoco Solutions**

- Outlined demands on network and generation supply at peak demand periods and stated that 100% of network capacity is used less than 50% of the time.
- Noted that Intermoco supports the proposed extension of the derogations for types 5-7 metering installations.
- Stated that some of the key objectives to be achieved through interval metering are cost reflective pricing and innovative metering tariffs; demand side responses during peak demand periods; and reduced investment to meet summer peak demand growth.
- Argued that to achieve these objectives, two-way communications need to be installed and that the ACCC's Determination should mandate AMR or somehow incentivise it. Argued that there is a strong case for this because the benefits would be spread across all consumers but the costs would be fixed on one provider.
- Stated that most retailers have shown minimal interest in metering innovation compared to networks, and that retailers are mostly interested in serving large customers which would continue regardless of the derogation.
- Commented that the inclusion of meters in the regulated asset base, and NEMMCO accreditations give networks natural economies of scale in metering services provision.
- Argued that metering companies can drive a lot of innovation due to large volumes, economies of scale and current meter technology.
- Predicted that wireless meter technology with communications would be readily installed within 3-4 years, and noted that wireless technology rests with the network businesses.
- Noted that the Victorian ESC's cost-benefit analysis for the rollout of remotely read interval meters found that for business customers, the benefits of two-way meter communications exceed the benefits of manual meter reading by \$128 million. Also noted that the ESC's cost-benefit analysis found that there would be a net benefit to residential customers consuming >10 MWh per annum.
- Argued that technological advances require a scale approach, i.e. large volume rollouts. Noted that it is now two years since the ESC's study was completed and there has been little development of metering innovation.
- Concluded that regulated outcomes are required but there should be more consumer imperatives placed on networks; and unless distribution businesses do a scale rollout, TOU metering won't eventuate.

## **Robert Petersen, AGL**

- Questioned whether the derogations can be effective without a national metering strategy. Stated that AGL is a national retailer and must deal with different metering arrangements in different states. Noted that 90% of NSW customers will not have interval meters, despite EnergyAustralia's rollout to customers consuming >15MWh per annum, and reiterated that metering issues should be resolved on a national basis.
- Noted that type 5 meters are exclusively provided by distributors but type 4 meters are not. It is not yet known whether it is more efficient to rollout interval meters or interval meters with communications, but this debate should be resolved first.
- Mentioned that AGL is conducting trials of interval meters with small customers and the results will be known in early 2006. Argued that the derogations should expire in mid-2006, as derogations are not required after the end of 2006. The derogation should only be extended until the trial results are known.
- There was a gap in the application of the NSW derogation between June 2004 and December 2004, and the wheels did not fall off in NSW.
- Agrees that standard type 6 meters should be exclusively provided by distributors but the definition of type 6 meters is too broad. For example, pre-payment meters can be a point of product differentiation but they are currently part of the definition of type 6 meters. Stated that policy should be careful not to stifle innovation, and that some type 6 meters could have a separate category.
- Stated that whether remotely read type 5 meters should be part of the derogation depends on the results of customer trials. If it is found to be a good thing, it should be provided by distributors.
- AGL has experienced anti-competitive issues with some networks regarding their policy of (not) installing interval meters on request. If the derogation were to apply then there must be incentives on distributors to comply with reasonable retailer requests. Governments have not agreed to pass through the increased interval metering costs ( hundreds of millions in each state) to customers, and the benefits of interval meters ( curbing demand in critical periods) will not be realised without this.
- Noted that there is potential for 'optional contestability' because distributors are the default metering provider under the Code provisions.
- Argued that all the information for a long term decision is not available but the derogation should not be removed now.



## **Russell Caird, Commercial and Strategic Solutions**

- Argued that there should be no change to the derogations and current arrangements until the process following the Joint Jurisdictional Regulators' (JJR) Review of Metrology has been completed.
- Argued that the proposed condition of authorisation will compound and raise barriers to entry and embed existing market failure. Argued that the ACCC should conduct an urgent review of the JJR review.
- Stated that consumer issues with regard to the provision of meter hardware are irrelevant in relation to the wholesale market. Stated that there is currently no meter that facilitates wholesale market settlement.
- Argued that new entrant retailers should be facilitated so they can compete against other retailers. All incumbent retailers have an existing portfolio of customers that represents the average consumption profile. The lack of accurate and timely data as a result of profiling has a barrier effect on potential new entrants.
- Argued that in the absence of timely management and delivery of relevant data appropriate derivative products to manage the inevitable load forecast errors and resulting hedge mismatch within the wholesale market processes cannot be developed. This represents market failure and prevents retailers from competing on price as a result of lower energy costs through superior risk management skills in the development of such derivative products.
- Argued that there is a market failure because second tier retailers target and win a portfolio of low-volume, low-peak customers rather than the market average. Profiling assumes that these customers are average customers and the retailer is charged as though they are average customers. Further submitted that this market failure generates material errors in the calculation of financial obligations between counterparties which represent material barriers to market entry and/or competitive pricing in the retail market.
- Submitted that the relevant issues are effective and efficient data management in physical and economic terms. This is achieved by integrated metering infrastructure which consists of metrology, communication and data management, which will facilitate competition.
- Stated that the derogation does not prevent competition in metering but instead can be the basis for improvements in data management and settlements, via network infrastructure.
- Proposed that the ACCC should reconsider the imposition of the proposed condition of authorisation.
- Argued that an ad hoc rollout of type 5 meters will be a sunk cost and create further barriers to alternative technologies. For instance, incumbent retailers can install type 5 meters as a strategic approach to complicate the adoption of an integrated solution.
- Argued that as the key peak loads are generated by small domestic customers with air-conditioning units the aggregate of this demand is critical in the wholesale

market pricing processes and therefore there should be no load threshold at which meters are installed i.e. "customers that consumer more than "z" MWh pa.

- Noted the metering model adopted in the Italian market where an integrated metering solution and its installation costs approximately \$155.
- Following the presentation there was a discussion of whether interval metering would be a competitive advantage to incumbent retailers or new entrant retailers. During this discussion, AGL contended that incumbent retailers would be better off in a competitive sense with interval metering as there would be less exposure to the Net System Load Profile and that fewer customers would be attractive to new entrant retailers. This view was supported by EnergyAustralia. AGL also commented that interval meters would not necessarily facilitate greater competition, but that more would be known following the completion of interval metering trials.

### **Other issues**

- Commissioner Willett asked EnergyAustralia to indicate what a reasonable return on rolling out type 5 meters with two-way communications would be. Harry Colebourn took this question on notice and agreed with the Commissioner's request to provide a brief submission on this point.
- AGL submitted made that the Net System Load Profile does not really cause cross subsidies between air conditioned and un-air conditioned customers because the profile is determined over a quarter so retailers with more air conditioned customers will receive a far greater share of wholesale costs in that period.