

ACCC - Predetermination Conference



Brief presentation and submission

14 January 2005

Overview of submission

- ❑ Metrology requirements of the wholesale market have not been adequately considered
- ❑ Timely delivery of relevant data at the wholesale market level is the key to a competitive NEM
- ❑ An understanding of the size and impact (as a barrier to entry and a market failure) of “profiling” as the settlement mechanism in the wholesale market is required before an informed judgement on metrology requirements can be made
- ❑ The industry focus on customer “choice” (or Retailer specific choice) of what metering hardware is appropriate is misguided and a nonsense
- ❑ No change to current arrangements should be countenanced pending the proposed comprehensive response to the final recommendations of the Joint Jurisdiction Review

Overview of submission (cont')

- ❑ The proposed Draft Determination condition of authorisation that: -

“any meter that incorporates remote reading capabilities, irrespective of how frequently the meter is remotely read, will not be subject to the derogation”

will: -

- compound current barriers to entry for new entrant retailers and create further barriers
- Support and further imbed current market failure

- ❑ This presentation is not conclusive but attempts to provide a basis for an ACCC urgent and comprehensive review of the “Joint Jurisdictions Metrology Review” prior to facilitating any change to current metrology arrangements.

Issues for the wholesale markets

Consumer issues associated with meter hardware are irrelevant in the wholesale market ...

- ❑ Metrology data (delivered in a timely manner) is required for: -
 - Settlement of the “Pool”
 - Energy contracting market – establishment of resulting counterparty obligations
 - Development of derivatives market to manage inevitable: -
 - Forecast error
 - Hedge mismatch
- ❑ Currently: -
 - No relevant “*instrument*” (Meter) in the wholesale market to generate relevant data to establish financial obligations of counterparties
 - Consumer retail market meter data is used as a *surrogate* in metrology procedures i.e. “Profiling”

Issues for the wholesale markets

- ❑ Current consumer based metrology data is not adequate for wholesale market transactions .eg. It prevents: -
 - Energy cost differentiation via innovation in risk mitigation
 - Innovation in retail tariffs e.g. tariffs linking discretionary load to W/sale cost drivers
- ❑ The surrogate of profiling has a flawed assumption that: -
 - All retailers will have a portfolio of customers that represents the average consumption profile

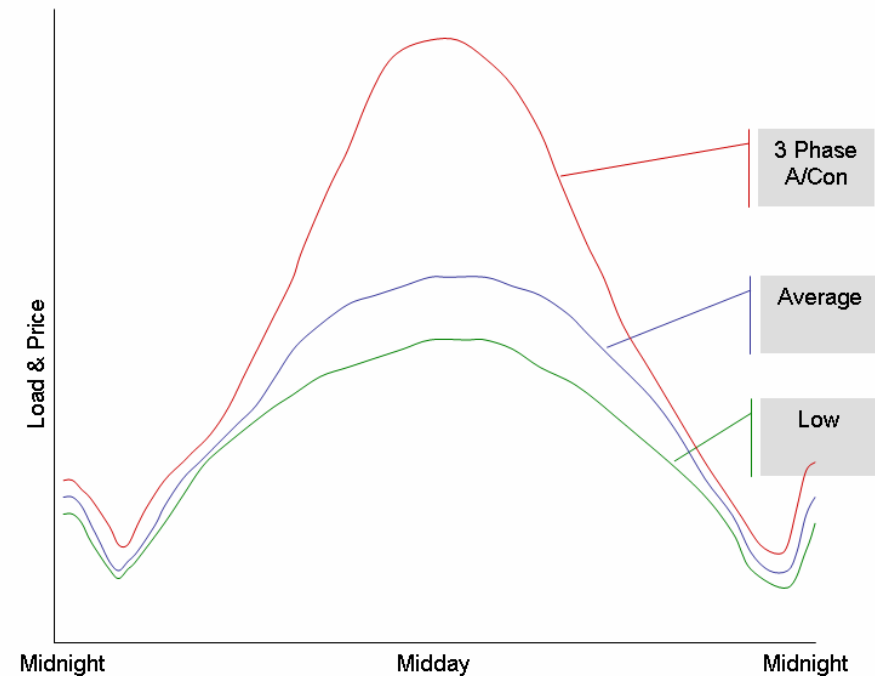
[The National Standards Commission has advised its' support of profiling was based on this premise].
- ❑ These matters have not been considered or assessed within the Joint Jurisdictional Review and represent: -
 - Material barriers to entry for new retailers
 - Market failure

Example of the impact of issues

Market failure (and entry barriers) are best observed via the following simple scenario ...

- ❑ A second-tier retailer (STR) targets and wins a portfolio of low-volume (low peak) consumers – not the market average
- ❑ Notwithstanding no contribution to peak load “profiling” assumes this exits and the retailer is charged for the average load and associated price

Average Daily Power Consumption Profiles – Peak Day



Example of the impact of issues (cont')

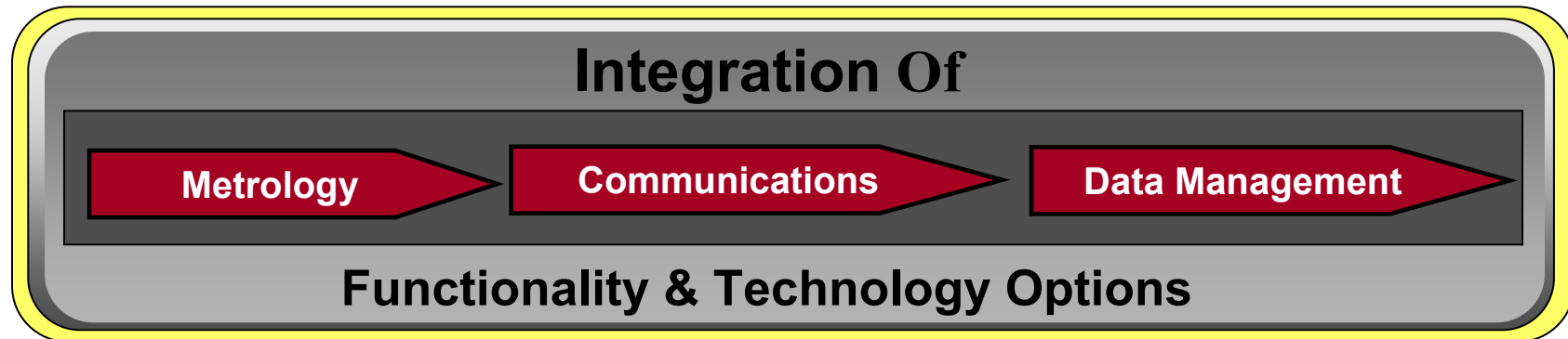
- ❑ STR can install Type 5 meters to avoid this settlement error however: -
 - Is thereby funding infrastructure required for an efficient and fair market
 - Must recover costs from customers thereby:-
 - creating contracting complexities
 - effectively soaking up competition margin
 - Etc
- ❑ Without Type 5 metres (with coms') for both STR & FTR, initiatives in Contract and Derivatives markets are not possible!

The net public benefit is found in data not meter hardware

FRC will be achieved through an effective wholesale markets which requires the timely delivery of relevant load data ...

- ❑ When the importance of data in the wholesale market is understood as a key to FRC the relevant issues become: -
 - The effective and efficient management of the data - in both Physical and Economic terms i.e.: -
 - What data
 - The timeframe for delivery
 - The processing/management of the data
- ❑ Effective and efficient management of data will be achieved through “Integrated Metrology Infrastructure” i.e.: -
 - integrated metrology; and
 - remote/distributed data processing

What is Integrated Metrology Infrastructure

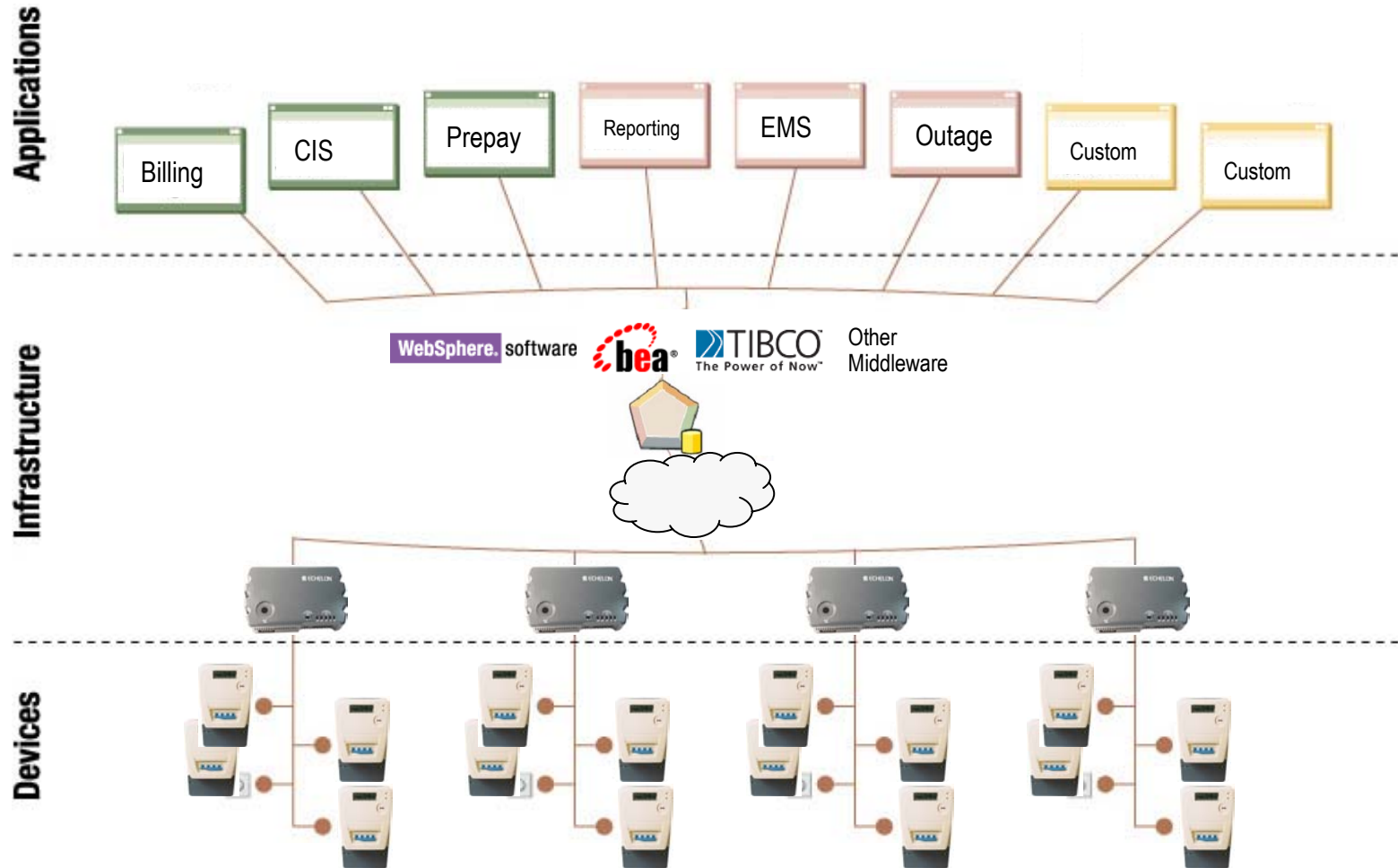


- Half-hourly consumption
- KVA & Power factor
- Disconnect switch
- Load limiting
- Pre-payment
 - With essential service supply

- Meter Reading
 - PLC (preference)
 - Radio - RF, GSM, GPRS
 - Telco Cable-ADSL, PSTN, Fibre Cable
- VAS
 - Connect\disconnect
 - DSM - Appliance control & monitoring
 - Home Security Initiatives
 - Other in home device control initiatives

- Data Services for: -
 - Settlement (weekly)
 - Billing (monthly or quarterly aggregates)
- VAS
 - Half-hourly and customer specific (for Risk Management)
 - Consumption monitoring and management

Complete Solution



What does all this mean for competition in the Metrology markets?

Authorised monopoly for meter hardware ownership does not prevent competition in metering & metrology services ...

- ❑ Hardware monopoly can facilitate true competition at all relevant levels of metrology i.e. in: -
 - Supply of hardware (including manufacture)
 - Supply of data management services – separate analysis for
 - Network management (asset deployment and maintenance)
 - Customer billing options
 - Settlement related purposes
 - Energy contracting
 - Derivatives market
 - Supply of installation services
 - Supply of maintenance services
- ❑ Core “aggregated data” at retailer level provided to NEMMCO for weekly settlement

Imposed condition of authorisation

It is submitted the Commission should reconsider the imposition of the proposed condition as ...

- ❑ And efficient and effective wholesale market that supports competition will require a consistent and uniform approach to data management
- ❑ Any ad hoc rollout of Type 5 metres will represent a sunk cost and a further barrier for any alternative integrated solution
- ❑ Enables incumbent oligopolies (retailers) to install Type 5 metres as a strategic approach to: -
 - further confuse and complicate the rollout of an integrated solution
 - force investment by NEMMCO and others in back-office systems for data management - a further sunk cost and barrier to change

Commercially proven low-cost solutions are available

These derogations are based upon inputs to the JJR which the ACCC has recognised as requiring a considered response. It is submitted the JJR relied upon flawed assumptions and outdated information ...

- ❑ An end-to-end solution currently operates in Italy (stated payback is 4 years)
- ❑ Indicative cost of end-to-end solution \$155 installed
 - Annualised cost over 15 years approximately A \$1.40 per month
 - Includes distributed processing capacity
 - Avoids multiple back-office investment by retailers/distributors for data management
 - Delivers accurate and equitable settlement of the wholesale market (NEMMCO)
- ❑ The public benefit case can easily be made on AMR alone
 - The Victorian Government's derogation application cites the cost of scheduled reads as \$13-\$21 per customer pa

End

Questions and or issues arising?

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