

**Australian Competition and Consumer Commission**

**Authorisation of the National Electricity Code:**

Applications for authorisation Nos: A90915, A90916 and A90917

**PRE-DETERMINATION CONFERENCE**

**Thursday 13 January 2005**

**Level 35 / 360 Elizabeth Street**

**Melbourne**

**MINUTES**

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

The conference commenced at 9.30am Thursday 13 January 2005.

*Attendees:*

*ACCC Staff:*

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

*Interested Parties:*

Vincent D'Agostino (Intermoco Solutions); Steve Black (Intermoco Solutions); Chris Boek (Centurion Metering); Bill Henley (NEMMCO); John Dick (Energy Action Group); Peter Clements (Victorian Department of Infrastructure); Dennis Etchells (Embedded Network Energy Solutions); Michelle Shepherd (AGL); Scott Chapman (AGL); David Cornelius (Victorian ESC); Graeme Hamilton (Origin Energy); Claude Corso (Ampy Email); Michael Guy (Polymeters Response International); Rolf Herrmann (Citipower/Powercor); Verity Watson (United Energy); David Hayes (Bglobal Metering); Michael Stephens (Energy Intellect); Peter Ellis (TXU); Craig Marschall (Trans Tasman Energy Group); Graham Wragg (Citipower); Andrew Crowther (Trans Tasman Energy Group); Jeff Colby (Origin Energy); Susan Dobson (Victorian Department of Infrastructure); Philip Thomson (AusPower); Ken Lindorf (Agility).

**Steve Black (Intermoco)**

- Intermoco supports the main thrust of the ACCC Draft Determination.
- Stated that they have a view on where the industry should go, given that electricity growth in terms of peak demand is growing and tying up capital expenditure.
- Considered that the Victorian Essential Services Commission's (ESC) mandated roll-out does not go far enough in that there is no provision for 2-way communications (2-way comms) in the planned roll-out.
- 2-way comms are beneficial in that:
  - Customers can make choices during peak demand times.

- Real time demand responses allow more competitive dealing in electricity.
  - Installation of 2-way comms would occur more efficiently as part of the roll-out than later.
  - Price signals during peak demand can only be achieved with 2 way comms.
  - The benefits from this technology are spread across the industry but the costs are paid by one party which supports a case for exclusivity regulation.
- The Draft Determination stated that the proposed condition allowed for increased innovation by retailers. Intermoco submits that this innovation has not been seen so far.
  - Believes metering businesses (through DNSPs) are best placed for innovation, especially while wireless 2-way comms are not readily available. There is a risk of stranding assets if these meters are not rolled out across the board.
  - Considers that the benefits of 2-way comms outweigh those of manually read meters for all >10 Megawatt hour (MWh) customers, this at least justifies all customers >20MWh having 2-way comms.
  - The price per meter falls with the increased volume of a roll-out
  - Intermoco calls for a trial/pilot of 2-way comms technology for small customers, stating that funding should be available from the government.
  - Intermoco believes that the derogation should be worded to create an incentive for the roll-out of 2-way comms.

**Michelle Shepherd (AGL-retail business)**

- Called for a National Metering Strategy.
- AGL is concerned over the lack of a national approach and its detriment to efficiency. There should be greater consistency amongst jurisdictions, and the ACCC's Determinations for the Victorian and New South Wales derogations should be consistent.
- Submits that not all the information required for the decision to be made was collected before the ESC's decision to mandate the interval meter roll-out, and that there have been no trials of the mandated, or any other, technology.

- There is continuing uncertainty about roll-outs in other jurisdictions.
- Trials need to be conducted to determine whether consumers respond, but these have not been done. AGL is currently trialling Type 5 meters in Victoria.
- If the derogation is to be extended, the 24 month extension is too long, it should be brought back at least 6 months, to mid 2006.
- There would be detriment from allowing contestability in relation to Type 6 meters, however the definition of a Type 6 is too broad, especially as it covers pre-payment meters.
- The derogation gives metering responsibility for manually read interval meters to DNSPs but not accountability. The DNSPs don't always install the requested meters in a suitable timeframe (an instance of several months was cited). There needs to be a requirement to let the DNSP allow the retailer to install a meter where the DNSP does not wish to do so. This installation by a retailer where the DNSP deemed it more efficient to do so was referred to as optional contestability.
- Operational requirements have not been set out for support of the roll-out.
- AGL broadly supports the Draft Determination, as it makes sense for the time-being, but as more information, such as preferred industry solutions or the mandating of 2 –way comms, may come to light over the timeframe (before 2006) the time that the derogation applies should be reduced.

**John Dick (Energy Action Group)**

- Submits that the Draft Determination promotes neither competition nor consumer protection.
- Believes that the ACCC failed to take into account all relevant information.
- There is a real need for some direction in metering as timely and accurate data is essential to progress the NEM forward towards becoming a real time market based on user paying.
- There is no national consistency which is a major problem with regard to market settlement.
- The evidence put forward to support the regulatory decisions in relation to meters thus far has been pathetic.

- All new/replacement meters should be able to be converted to Type 4 so that proper accurate market data can be collected. At this time some Type 5s are being read as Type 6 which increases inaccuracies in market data. The quality of standing data needs to be sorted out.
- The Victorian Derogations exacerbate the problem by not dealing with the issue of summer peaking. There is insufficient data in regard to the size and quantity of air conditioners, which are the main cause of high peak demand. Further, the Draft Determination fails to address the inefficient use of networks due to the maximum capacities only being utilised during the infrequent time of high peak demand.
- The B2B program has shown the lack of innovation by the electricity industry as a whole, there has been no research and development on the issue of load or network usage.
- More industry discussion is necessary before any decisions can be made. There has been minimal industry participation nationally.
- Cost smearing is occurring due to a lack of data. Those consumers with air conditioners that are the cause of high peak demand are being subsidised by flat profile customers. Thus there is no demand side response. The peaks in Victoria on a hot day add up to 3500MW which requires huge investment. The Draft Determination doesn't take that into account.
- The metering derogations merely establish the status quo.
- Even a type 5 roll-out is only a partial solution. Type 4 meters are needed to allow for customers to; either pay for all electricity (including peak usage), be managed by their retailer or manage themselves.
- High peaks result in large inefficiencies and the current arrangements reward poor asset utilisation instead of efficiency. Temperature sensitive customers under 160MW are driving a lot of the energy and network costs and flat profile consumers underwrite this inefficient investment.
- Quality of supply is only able to be assured with type 4s and 5s not type 6s. Type 6s allow too much in the way of cost smearing.
- The derogation needs altering so that:
  - Type 5s can be capable of conversion to type 4.

- A working party to determine the use of Automatic Meter Reading be convened prior to the next determination.
- There needs to be a trial of 1000 Type 4 meters per distribution business in each jurisdiction.

**David Cornelius (ESC Victoria)**

- The ESC gave a summary of its decision regarding the mandated interval meter roll-out.
- The ESC stated they supported the derogation and the conditions proposed by the ACCC.
- Stated the ESC looked at 2-way comms and even though they noted that there were increased benefits that technology wasn't mandated due to uncertainty in relation to true costs/benefits at the time of the decision.
- With the derogations in place, the ESC is now looking at enabling metering competition for large first tier customers.
- Stated that the Joint Jurisdictional Regulators Review of Metrology (JJR) was the beginning of a national metering strategy and that all metering would be under the National Electricity Code (National Electricity Rules) in one instrument.
- The JJR leaves meter types for small customers as a decision for the jurisdiction. The ESC believes that all small customers should remain the exclusive responsibility of DNSPs.
- The JJR also recommended:
  - The extension of Chapter 7 of the Code to incorporate metrology for first tier customers.
  - NEMMCO to have responsibility for the drive to national consistency and lead the Code change process.
  - That interval meters be assessed in each jurisdiction and that profiling not be sunsetted at this time.
- The derogation allows for full consideration of the JJR and is an interim measure only.

## **Graeme Hamilton (Origin Energy)**

- Asked the question whether there is a public benefit in having a monopoly over the provision of metering services. This hasn't been adequately addressed in the Victorian Government's application or the Draft Determination.
- Stated that the cost to consumers of extending the current arrangements has not been addressed, and the public benefits needed to be quantified.
- Submits that the burden of proof is on the applicant and that competition must be assumed to be the best outcome. Substantive analysis of whether the application overturned this presumption is needed. This was not included in the Draft Determination.
- Stated that there needs to be some quantification of meter churn and the possible costs of having retailers as the metering service provider.
- Submitted that the current differentiation in meter reading/servicing costs between metering service providers is unjustifiable and demonstrates inefficiencies. Stated that charges are higher than the gas industry equivalent charges and that this wasn't picked up in the Draft Determination. Some discussion is needed on why there is differentiation between different distributors and the equivalent gas charges. Figures of between \$20 and \$35 for an electricity special meter read demonstrated the spread across the electricity industry and were also compared to the equivalent charges of between \$5 and \$10 in the gas industry.
- Stated that achieving electricity industry best practice for metering services has the potential to deliver annual savings of approximately \$25 million per annum. Matching gas industry best practice has the potential to deliver annual savings of approximately \$51 million per annum. Submitted that the Victorian Government must demonstrate, and the Commission must be satisfied, that continuation of metering exclusivity will deliver benefits in excess of \$51 million per annum.
- Argued that the 160 MWh threshold for metering competition is not justified and is arbitrary. Origin recommends 20 MWh as an appropriate threshold and

submits that the worst outcome in doing so would be that there would be no change to the status quo (that is, not a single site would change).

- Submitted in relation to the interval meter rollout, that although there may be additional costs for retailers to act as a metering service provider these costs need to be quantified and discussed, and not accepted as a given. Origin also contends that the envisaged public benefits from the interval meter rollout are based on a flawed cost benefit analysis.
- Stated that the driver behind the JJR process was to provide certainty in metering arrangements, however the recommendations will allow jurisdictions to set their own thresholds for competition. This creates more uncertainty. The market will not be in a better position in 2 years, at the expiration of the derogations, to make a decision.
- Submitted that there should also be consideration of the bundling of gas/electricity/water as well as bundling for customers that have multiple sites both over and under the 160 MWh threshold.
- Agreed with ACCC that retailers have commercial incentives to pursue innovative metering arrangements. Some customers will want to take advantage of these and others will not.

#### **Dennis Etchells (Embedded Network Energy Solutions)**

- Stated that in embedded networks the regulatory framework has allowed savings of up to 30% in retirement villages, and these savings have been passed on to residents.
- Working with embedded networks can benefit the community greatly, including reducing demand by up to 70%.
- In relation to the proposed metering strategy there has been little analysis and there is little data available on household usage patterns. It is difficult to access data on interval meters due to privacy arrangements.
- ENES supports the Draft Determination that remotely read interval meters be removed from the derogation, but submits that embedded networks should be excluded also. This would allow for further savings in those networks that can benefit from the scale economies of meter reading which could be passed onto consumers.



- The derogation should not preclude customers in an embedded network from using the Local Network Service Provider (LNSP) as the meter service provider.

**Craig Marshall (Trans Tasman Energy Group)**

- Endorsed ACCC's recommendation to exclude embedded networks from the derogation.
- Stated that market services must be either regulated or fully competitive, not a half way solution eg if 5 Distributors provide the same Excluded Service then Retailers and others should be able to choose their provider.
- Noted and supported the ACCC's view that LNSPs are best placed to continue data provision for Type 7 meters.
- Submitted that in relation to Type 7 meters that 5 DNSPs hold the monopoly in Victoria and proposed there should only be one monopoly operator and not 5 to reduce inefficiencies through duplication of the same monopoly service.
- Argued against the ACCC's contention that minimal innovation has occurred in relation to Type 7, because customers are increasingly owning unmetered installations eg public lighting.

**Peter Clements (Energy & Security Division Victorian Department of Infrastructure.)**

- The Victorian DOI supports the Draft Determination.
- As policy makers DOI aims for effective full retail competition, not competition for competition's sake. The derogations serve that function and the duration is adequate to allow outworkings of the JJR to be developed and considered.
- Exclusivity for DNSPs is well supported by the regulatory framework through incentive regulation, benchmarking and use of system agreements.
- Contestable metering would introduce additional complexities of further responsible persons, which will increase the time and complexity to transactions.
- The cost of meter reading by distributors has been subject to a regulatory process.

- Innovation may be hindered in Type 6 meters due to the derogation, but the scope for innovation is limited anyway.
- As the proposals for ways to implement the JJR recommendations are due in December 2006 the derogations should be kept until then.
- The net benefit of remote comms over and above standard type 5 meter technology must be further assessed before any deployment of remote comms would be mandated.
- The Victorian Government believes that the ESC was correct in not mandating remote comms at this stage. The logical process for assessing this is the change procedure for relevant metering codes and metrology procedures.
- Looking forward, demand side response is being considered as part of the Ministerial Council on Energy's User Participation project.
- As far as proposals for exclusivity for 2-way comms, this is not supported and should be contestable as per the derogations condition.
- The Victorian Government will make a fresh approach to industry encouraging agreement on the benefits of getting greater functionality in the interval meter rollout.