16 November 2016

Mr Mark Feather
Energy Policy and Programs Branch
Department of Environment, Land, Water and Planning
121 Exhibition Street
Melbourne VIC 3000

By e-mail: metering.competion@delwp.vic.gov.au

Dear Mr Feather

**Transition to Metering Competition in Victoria – Options Paper**

Origin Energy welcomes this opportunity to respond to the Department's options paper on transitioning to metering competition in Victoria. As a significant retailer of electricity in Victoria (and throughout the NEM), we have a strong interest in the consistency of rules and procedures applying to advanced metering as this has an impact on the cost of metering ultimately paid by customers and the range and quality of products and services that such devices enable.

**Preferred option**

Origin would strongly recommend Option 1 be adopted. Of the four options presented and with appropriate transitionary mechanisms, this option will most clearly align Victoria with other jurisdictions under the National Electricity Rules (NER) and minimise the cost to consumers of introducing choice of metering services for Victorian electricity consumers.

Existing advanced metering infrastructure (AMI) managed by the five Victorian electricity distributors is unlikely to be impacted by adoption of this option due to the high exit fees associated with devices already deployed.[1] Therefore, benefits associated with the Victorian metering specification will be preserved for the medium term while permitting newly connected customers and customers requiring a replacement meter access to contestable metering services.

Option 1 strikes an appropriate balance between the devices deployed on a mandatory basis to deliver societal benefits and advanced meters that will be installed in the future that will place an emphasis on products and services sought by customers. If services set out in the Victorian metering specification are valued by customers, distributors, retailers and other users of advanced metering, they will continue to be offered by Metering Coordinators (MC) on a contestable basis. MCs that is able to offer additional services to more users will reduce the overall cost of their provision of advanced metering and thereby obtain a greater share of the contestable market for advanced meters.

**Other options**

Option two

Option 2 adds additional costs with limited opportunity to capture any benefits. Alignment with the Victorian metering specification will increase the cost of devices deployed, without any guarantee that

[1] As noted on page 12 of the Options Paper.

these services can or will be accessed by interested parties (for example distribution network service providers) given that no service levels are proposed to be associated with the specification. Providing for such service levels would require complicated procedures to access a contestable metering provider's (MP's) head end system that would pose challenges similar to those that have prevented open access to the DNSP's AMI systems in Victoria. In particular, third party direct access to a MC's system would present protocol and technical complications, challenges to commercial decision making and ICT security concerns. Similar (and valid( arguments have been previously put by distribution businesses as to why direct access to advanced metering head end systems is extremely problematic.

*Application of an access regime*

An access regime (which the Australian Energy Market Commission previously considered unnecessary in its competition in metering rule change), should only be considered where there is evidence of market failure. Origin believes that implementing an access regime in Victoria would significantly impact on the viability of competitive metering provision and would further embed differences between Victorian and other National Electricity Market jurisdictions.

*Network benefits*

The value of benefits associated with functions that are additional to the national minimum services specification contained in the Victorian metering specification have not been reported in detail by distribution network area (in terms of the value they have added to date by network area since the AMI roll out commenced). Origin acknowledges that a number of cost benefit analyses have investigated the benefits associated with the Victorian metering specification, but the extent of these benefits in terms of outcomes for individual customers is not clear. Preserving these benefits will come at the expense of effective competition in metering services in Victoria. Furthermore, to the extent these functions have value; distribution businesses will negotiate with MCs to maintain access to them.

Option 3

Option 3 is essentially the same as Option 2 given that practically, existing AMI devices will remain in place due to the prohibitive impact of exit fees that apply to these devices. It retains the same problems as Option 2, requiring additional functionality that may not provide benefits to customers, but will increase the cost of deploying contestable meters in Victoria relative to other NEM jurisdictions.

Option 4

Origin does not support Option 4 as it will simply prolong the status quo and deny Victorian consumers access to contestable metering services for an indefinite period.

We respond further to specific questions set out in the options paper below.

**Closing**

Origin would ask the Department and the Government to consider the objectives it would seek to achieve in transitioning to a contestable advanced metering environment. It will be costly and difficult to maintain twin goals that feature the use of AMI devices as critical monopoly infrastructure, while simultaneously seeking to encourage a greater level of customer engagement in new products and services that will be provided by competition in metering services.

We would strongly encourage the adoption of Option 1 for new and replacement meter customers as a transitionary measure. This would allow distributors, MCs and other stakeholders to explore contractual models that may support some, or all of the additional services contained in the Victorian metering specification.

Should you wish to discuss any part of this response further, please contact David Calder (Regulatory Strategy Manager) on (03) 8665 7712 in the first instance.

Yours sincerely

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**Question 1**

Do you support implementing metering competition in Victoria so that the current Victorian meter specification and/or the minimum service levels are retained?

As discussed above, Origin does not support the retention of the Victorian meter specification and minimum services levels where competitive metering services are to be implemented. Additional costs associated with supporting access for distributors to competitive metering provider's head-end systems in real-time are likely to be costly. The inclusion of a ZigBee radio will also add to the cost of contestable metering. Given that installation of advanced meters is a mandatory obligation for retailers under the revised requirements set out in chapter 7 of the NER, the retention of the Victorian metering specification will result in higher costs for advanced metering than would be the case in other NEM jurisdictions.

**Question 2**

Should other considerations about the respective capabilities of the meters and service levels be taken into account?

Origin believes that the Victorian meter specification and associated service levels should be thought of in the context of the time and purpose of their development. They were drafted and implemented in an environment that did not include any prospect of competitive metering. As such, they reflect the provision of services on a monopoly basis, which does not reflect the environment that will develop under a contestable market for metering services. A number of the services may therefore be redundant or of marginal value relative to the benefits available to customers through the national minimum services specification, the products and services that may be offered to consumers and the value of lower cost services and devices brought about by the competitive market.

In terms of the ZigBee functionality, Origin is uniquely placed to comment on the effectiveness of this element of the Victorian meter specification having deployed the largest number of ZigBee connected devices of any retailer or energy services provider. In 2012, Origin offered two different models of an in home display (IHD) unit to eligible customers. These devices were generally well received by customers however, continued use and interest rapidly waned and it was clear that customers were unwilling to contribute to their cost.

While Origin accepts that other consumer services and products can be enabled by ZigBee, in a contestable metering environment this functionality should not be mandated, but instead driven by competition and consumer preferences.

**Question 3**

Do you have any comments or views on Options 1, 3 or 4?

We summarise our views on options 1, 3 and 4 above on pages 1 and 2. Option 1 is Origin's clear preference.

**Question 4**

Under Option 2, what additional measures should be considered in relation to meter installation and wiring safety, the safety associated with the use of remote reconnection service enabled by smart meters and community safety?

Metering should be installed safely at all times and Origin fully supports mechanisms that will support this. Regulation and rules need to be altered to ensure that retailers, MCs and MPs are able to install meters and have the appropriate right of entry to modify and maintain metering as necessary. Existing barriers to this activity to the extent they place barriers to contestable participation should be removed.

MPs should have a Safe Management System (SMS) in place that is approved by the ESV. The purpose of the SMS is to ensure that the relevant safety precautions are taken to ensure the meter is installed safely and that supply to the premise is disconnected and reconnected in a safe manner for the purpose of carrying our meter change and enhancement. Part 10 of the Electrical Safety Act 1998 of Victoria contains information about what a SMS plan should contain and this would need to be modified to enable an MP to submit a plan purely for metering purposes. Some of part 10 contains requirements that are not relevant to contestable MPs (for example bush fire prevention).

Origin proposes that the distributer should be responsible for ensuring that a customer's REC has completed all the appropriate testing, as part of obtaining a Certificate of Electrical Safety as described in the Electricity Safety Act. Following this, the distributor connects the customer's service fuse. The MP is responsible for the installation of metering and connection between the service fuse and the customers premise. Both parties are responsible for ensuring that this is done safely by carrying our adequate testing if supply is available.

Industry is currently working on a number of new Australian Standards for metering and the Competitive Metering Industry Group is putting together a guideline for the safe installation of electricity. Origin would urge the Government and Department to consider the outcomes of this work.

Finally, Origin would emphasise that whatever standards and rule apply to advanced meter installation, the same approach should apply to regulated and contestable MPs and MCs in order to maintain a level playing field.

**Question 5**

Under Option 2, which party or parties should be responsible for communicating changes to metering arrangements to consumers, and should there be any communication role for the Victorian Government?

Under Option 2 (or any of the Options), retailers will be primarily responsible for making customers aware that they have access to contestable provision of advanced metering (through the retailer's MCs). Customers are generally unaware that they *do not* have choice at present and metering is a low engagement topic for the vast majority of small customers. For new connections, customers will not have the opportunity to opt out of having an advanced meter installed, and the need for targeted communications is therefore diminished. For existing customers, retailers would advise of a commercial deployment in the same way they would in other NEM jurisdictions; through a series of communications alerting the customer of the change, any applicable charges and their right to opt out of the deployment.

The Victorian Government could play a role in developing communications targeted at specific consumer cohorts that may require additional information during any transition.

**Question 6**

Under Option 2, would the introduction of access regulation for metering services in Victoria provide greater benefits than costs to Victorian household and small businesses?

It is highly doubtful that the introduction of access regulation in absence of any evidence of market failure will yield benefits that exceed its costs in relation to metering services. It may result in the introduction of regulation that will significantly increase the cost of contestable metering, but will produce benefits of limited interest or value to end-use consumers. Origin believes that to the extent distributors would seek to preserve specific services, they should be incentivised to negotiate with MCs to determine how these can best be delivered in a competitive market. Distributors can assess the cost of access and service provision and present these costs to the AER for approval in their normal regulatory determinations.

**Question 7**

Under Option 2, will the introduction of access regulation for metering services in Victoria assist in preserving unrealised projected benefits attributed to the Victorian smart meter rollout (please quantify any benefits)?

Origin is not in a position to quantify or comment in detail on the value of unrealised projected benefits associated with the Victorian smart meter rollout and how these might be preserved by any access regime. It is important however for the Department and Government to clearly define the objective of transitioning to metering competition and the primary purpose of advanced metering; are advanced meters a vehicle to provide the backbone of a 'smart grid' or are they to have a consumer focus to support new products and services? If the former is the emphasis, there are alternatives to end-point devices that would capture many of the network benefits previously assessed in past cost-benefit analyses. If the meter is deemed to be critical infrastructure to deliver network benefits, then this will materially conflict with any policy aimed at making the market for advanced meters contestable.

From a societal cost-benefit perspective, assumptions with respect to still unrealised benefits from the AMI roll out should be qualified by considering if a contestable deployment of advanced meters would result in net negative or positive outcomes for individual customers (including the strong likelihood of lower capital and operating costs for contestable meters).

As discussed above, Origin does not believe access regulation is required where there is no evidence of market failure.

**Question 8**

Under Option 2, are there services that Metering Coordinators will not be able to provide that are currently being provided by electricity distributors? If so, what information and/or services will the electricity distributors need to obtain from Metering Coordinators in order to continue to realise these benefits?

Origin is not able to make comments on the services that MCs will or will not be able to provide electricity distributors in a contestable advanced metering environment

As discussed above however, the materiality of the benefits associated with the services currently provided by the distributors is difficult to ascertain and therefore compare against the costs and benefits for consumers associated with competitive provision of advanced meters. It should be noted that the addressable market for contestable meters will be limited to new connections in the medium term due to the materiality of exit fees for AMI devices.

**Question 9**

If an access regime is introduced, who would be the responsible regulator and how should it be funded?

Given that Victoria has not adopted the National Energy Consumer Framework, the Essential Services Commission, rather than the AER would be the likely regulator of any access regime. Such administration costs would add to the contribution consumers would make to a competitively deployed meter and would not be a cost incurred by consumers in other NEM jurisdictions as noted above. Consumers are more likely to be concerned with the higher cost of metering that may result from additional regulation in Victoria than the potential for confusion over who is providing them with metering services (which will generally be managed by their retailer).

**Question 10**

What is the role for the Victorian Government in ensuring that the potential and benefits of energy data are unlocked through this process, including ensuring electricity distributors have appropriate access? Are there other mechanisms, other than the traditional access regime model, that could be utilised?

As noted on page 19 of the options paper, exit fees are likely to protect any current network efficiencies for an extended period of time. At a minimum, distributors will have free access to interval data streams as will distributors in other jurisdictions covered by the change to chapter 7 of the NER. Seeking additional services will be a commercial decision for the distributors to make (as it would be for any stakeholder seeking access including retailers and energy service companies).

To this end, Origin does not believe the Victorian Government should intervene in a competitive market and instead allow the market to develop and mature. The test of the value of additional services or data will be the mutual benefit that MCs (and their meter providers and meter data providers) and electricity distributors are able to capture above the cost of providing such services. If the costs exceed these benefits or if there is limited confidence that the AER would approve operational costs determined in a competitive market, it would bring into question the net benefits of such services in the first place.

**Question 11**

Should Victorian vary its current policy position that smart meter are mandatory and allow households and small business to opt-out of having a communicating smart meter?

Origin believes that the current policy position on opting-out of having a communicating smart meter should be altered to align with national arrangements. Replacement of meters due to accuracy degradation or actual failure of the meter will generally not support the right for a customer to opt out. Given the target market for contestable advanced meters in Victoria will be new connections, the practical intent of the current Victorian policy will be preserved over the medium term (as the existing fleet of AMI devices was installed on a mandatory basis and the same will apply for new connections under the metering competition rule change).

**Question 12**

Do you support setting the small customer threshold at 160MWh per annum rather than the 40MWh per annum as suggested by the AEMC? If not, please provide a reason.

Origin will provide further detail on this matter separate to this response.

**Question 13**

What regulatory changes would be needed to implement Option 2, and what considerations attach to these changes?

The Department captures the list of regulatory instruments that will require amendment set out in section 3.2.5 to support option 2.

Origin agrees that the National Energy Retail Rule changes should form the basis of any changes to Victorian regulatory instruments. The need for such changes has been clear for some time and it will require substantive effort by Government, regulators and industry to align Victoria with national arrangements in the next twelve months.

An alternative that may be less intensive in terms of changes would be a variation to option 2 that would grandfather regulatory arrangements for the existing fleet of AMI devices and apply NERR and NER provisions for new connections. Given the incremental nature of such installations, the Government and industry would have an opportunity to assess the effectiveness of such an approach, noting that different services and products may be made available to customers with regulated and contestable advanced meters.

**Question 14**

With metering competition commencing on 1 December 2017, what timing issues does the Victorian Government need to be aware of, and how might these be managed?

Origin would urge the Government and the Department to quickly progress to a policy decision that will provide certainty and invest resources in facilitating the work needed to prepare for the commencement of the metering competition rule change. We are strongly of the opinion that a variation to option 2 that would see the application of the new provisions of chapter 7 of the NER and relevant changes to the NERR be reflected in Victoria and that new connections need to comply with the national minimum services specification only. While noting that Option 2 is the Government's

preferred approach, we believe that the costs involved and the resources required to implement it will be prohibitive and will deprive Victorian consumers of the benefits of competitive metering that will be realised in other NEM jurisdictions.

**Question 15**

Are there any other factors or conditions that should be considered to successfully implement metering competition in Victoria?

Origin has maintained a consistent policy position on the merits of a competitive market for advanced metering for more than ten years. We strongly support the position arrived at by the AEMC to support the deployment of advanced meters under the changes to the NER and NERR. We believe that a least-cost approach for Victoria would involve the practical preservation of arrangements for the existing AMI fleet, which is effectively guaranteed due to exit fees associated with these devices, while gradually phasing in a contestable market through the application of national arrangements for new connections and eventually, replacement of AMI devices. Given the controversy previously experienced during the rollout of advanced meters, Origin believes that a least-cost approach incorporating a build up of products and services furnished by contestable metering over time would achieve a number of long-term policy goals for the Government and would more likely achieve community acceptance.