Friday 11 November 2016

Metering Competition Consultation Paper
National Energy Market Development
Department of Environment, Land, Water and Planning
GPO Box 4509
Melbourne VIC 3001

Lodged via email: metering.competition@delwp.vic.gov.au

Dear Sir / Madam,

SUBMISSION TO THE DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING – TRANSITION TO METERING COMPETITION IN VICTORIA

In October 2016, the Victorian Department of Environment, Land, Water and Planning (the "Department") requested submissions regarding the transition from a regulated metering environment in Victoria to that of metering competition.

This submission contains the views of Macquarie’s Corporate and Asset Finance Group ("CAF") only. CAF is one of six operating groups within the Macquarie Group of companies ("Macquarie").

Macquarie is a global provider of banking, financial, advisory, investment and funds management services. CAF specialises in lending and asset finance, engaging Macquarie Bank Limited’s balance sheet to provide tailored finance and asset management solutions.

Executive Summary

As an industry stakeholder, CAF values the opportunity to comment on the Department’s call for views on how Victoria can best transition to the new national arrangements for metering competition for households and small businesses.

Based on CAF’s experience in the Australian and UK competitive metering markets we believe that establishing a market framework which encourages competition is integral to the development of a domestic smart meter market. This competitive framework should be accompanied by a light-handed approach to regulation. Open market competition will promote innovation, drive down prices and ultimately deliver greater benefits to Victorian consumers.

The Power of Choice is a framework built upon the foundation of retailer-led metering contestability. CAF is a strong supporter of competition in the metering segment and believes that such competitive forces will, through commercial arrangements, deliver the desired objectives of the Power of Choice. Therefore, it would appear that many of the issues highlighted by the Departments paper can be solved through such arrangements.
Both Option 1 and Option 2 are therefore the only feasible choices to achieve a transition to a metering market which would yield the benefits of competition for Victorian energy consumers.

- **Option 1** is the preferred approach as it maximises competition and relies on commercial arrangements to provide the most suitable products and services to Victorian energy stakeholders. Furthermore, adoption of the national specification would minimise barriers to entry. The intention of the minimum specification is to act as a minimum level of functionality, not a maximum. Most meter manufacturers to whom we have spoken, advise that their typical market solutions already meet and exceed that of the Victorian minimum specification, with the exception of ZigBee functionality. We understand that the penetration of in-home displays in Victoria has been negligible and ZigBee functionality is largely viewed as an unnecessary cost impost on the Victorian energy consumer, with the advent of applications on mobile technology.

- **Option 2** is deemed to be an alternative way to achieve such transition to competitive metering in Victoria. However, we understand that maintaining the higher Victorian minimum functional specification will produce significant diminishing marginal returns to consumers, given the high cost / low acceptance rate of in-home displays and HAN functionality. Further, dictating technology may result in a higher metering asset cost base, while inhibiting sector innovation.

**CAF Background and Credentials**

CAF has been involved in the competitive metering market in the UK since its inception in 2002 and the Australian metering market since 2014, as both an adviser and an investor.

CAF currently own a portfolio of around eight million traditional and smart, gas and electricity meters. This includes over 1.5 million installed commercial & industrial and residential smart meters.

Macquarie is viewed as an independent third party meter owner and funder with a demonstrated history of working with a range of stakeholders including energy retailers, "in-house" energy retailer service companies, and the majority of independent participants in the smart metering market, manufacturers, smart meter service providers and installers.

**Detailed Submission**

CAF considers **Option 1** as the preferred option. Option 2 should be considered as a less ideal alternative as it still promotes competition, however may act to stifle market innovation by dictating technical solutions, at increased cost.

As aforementioned **Option 1** is the preferred approach as it creates a clear and standardised NEM path for the greatest competition and innovation in the Victorian metering market, to the benefit of all consumers.

Option 2 is an alternative approach to achieve such transition with minimal disruption of the already realised benefits for retailers, distribution companies and consumers alike. However, we believe Option 2 will carry the following disadvantages:

- We believe by setting a higher minimum specification for Victoria vis-à-vis the national minimum specification, we are advised that the meter purchase price will be significantly higher (by virtue of a higher component requirement and smaller manufacturing volumes). This is likely to prejudice retailer business cases for enhanced smart meter deployments in the state.

- Furthermore, we understand that most metering technologies currently available provide all of the requirements of the higher Victorian minimum specification in some fashion, with the exception of ZigBee capability. It is our understanding that the ZigBee requirement was included in the existing specification to largely facilitate HAN and in-home displays. It is also our understanding that the adoption rate of in-home displays in Victoria has been negligible, and with the advent of newer technology and proliferation of smart phone applications, the ZigBee component is largely redundant.
Adoption of Option 2 may result in differing technology requirements in Victoria versus the remainder of the NEM. The unintended consequence may be the creation of financial barriers to entry by adding cost and complexity to those potential new entrants seeking to bring competition and innovation to the Victorian market.

CAF is happy to provide views on the following selected questions where we feel our experience in both the Australian and UK markets may provide value to stakeholders.

**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?

Yes, but only as an alternative approach to accepting Option 1. CAF supports Option 2 as an alternative transition to a contestable metering market framework in Victoria, led by energy retailers. We believe that a standardised NEM minimum meter specification is conducive to effective market competition, from both a cost and innovation perspective. In this regard Option 1 would be the preferred adopted model.

In states outside Victoria, the specification has been deliberately set at a lower level as it encourages innovation and the exploration of new technologies and solutions. The unintended consequence of setting a higher minimum specification is that this will act to dictate technology solutions and inhibit innovation.

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

From a competition and innovation perspective, Option 1 is the preferred approach as this will drive the greatest near-term benefit for Victorian energy consumers. Our experience in both the UK and Australian contestable metering markets is that a light-touch regulatory approach encourages innovative commercial solutions.

Option 3 may not promote meaningful scale into the competitive meter segment in Victoria. This may act as an impediment to Metering Coordinators, third party financiers and field force logistics companies from entering the market.

It is our view that Option 4 would be an unacceptable outcome for the Victorian energy community. This will stifle any notion of competition or innovation in the segment.

**Question 5**
Under Option 2, which party or parties should be responsible for communicating the changes to metering arrangements to consumers, and should there be any communication role for the Victorian Government?

Under either Option 1 or Option 2, the energy retailer should be responsible for consumer engagement with respect to smart metering activities. These are the entities which typically ‘face’ the consumer and are best positioned to manage the proposition, communication and consumer engagement.

**Question 11**
Should Victoria vary its current policy position that smart meters are mandatory and allow households and small businesses to opt-out of having a communicating smart meter?

No. The Victorian Government made an election to move the entire state to smart metering. In other states, from 31 December 2017, there will be a ‘no backward step’ provision leading to a full smart meter deployment over time. Victoria has a distinct advantage in having already deployed state-wide smart meters and having endured the consumer and other stakeholder education process.
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?

The Victorian Government needs to come to a timely decision on their option selection. With a move to a competitive metering market, energy retailers will need to engage various market participants, including for example MP/MDPs, technology providers, third party financiers, and field force companies. To the benefit of the Victorian market, many energy retailers operating in Victoria have already begun this exercise by virtue of the impending Power of Choice framework in other states.

By virtue of distributor 'exit fees' on existing meters, the penetration of contestable metering services in Victoria will likely be limited to new and replacement meters in most cases. Therefore, we do not expect a large uptake over the next three to four years. This provides some timing pressure relief to existing and potential stakeholders. However, it is important that the Victorian Government take the appropriate steps now to put in place the foundation of a competitive market which promotes innovation and delivers the greatest benefit to consumers.

Conclusion
CAF believes that Option 1 is the most pragmatic and sensible option in order to achieve the optimal outcomes for Victorian consumers. Option 2 is a feasible avenue, albeit less desirable, for the transition to metering competition in Victoria. In summary:

- **Option 1** remains the most attractive option as it aligns Victoria with other states, promotes competition and innovation for the benefit of Victorian consumers.
- In our experience, the Victorian Government is best advised to adopt the National Minimum Specification as this will promote the greatest innovation and provide a flexible technology solution.
- Option 2 is an acceptable alternative as it facilitates a transition to a contestable smart meter market, albeit at a potential increased cost to consumers.

We would be pleased to share our experiences from the Australian and UK contestable metering markets with the Department. If you have any questions or comments, please do not hesitate to contact Mr Lex Scott-Mackenzie on (02) 8232 9933 or via email lex.scott-mackenzie@macquarie.com

Yours sincerely
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