Minister for Energy and Resources

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Dr John Tamblyn
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Dear Dr Tamblyn,

CONTINUATION OF CERTAIN VICTORIAN ARRANGEMENTS FOR ELECTRICITY METERING

Further to my letter and "derogation" application to you of 3 November 2007, I am writing to update you on the latest developments relating to the Victorian Advanced Metering Infrastructure (AMI) Project, including modifications designed to improve the certainty of delivery of the project and the delivery of key benefits.

In summary:

- the commencement of meter deployment has been deferred from early 2009 to mid 2009 and the completion date for meter deployment has been deferred from end 2012 to 2013;
- the design of the project will be modified to fully utilise existing market processes and procedures; and
- the early deliverables will focus on benefits in four key areas:
    1. the provision of interval metering data;
    2. the remote collection of metering data;
    3. remote de-energisation of supply; and
    4. remote re-energisation of supply.

It is the position of the Victorian Government that these variations, which were agreed to on 2 September 2008, do not diminish the need for the derogation, and do not require any alternative to the timeframes for the derogation.

Broadly, the impact of these variations provide a number of significant benefits for both the Victorian AMI Project and its standing as the first wide-scale mandatory deployment in line with the Ministerial Council of Energy's emerging national framework:

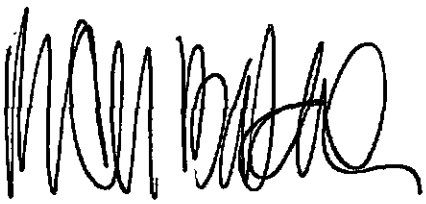
- significantly reduce project delivery risks;
- improve the certainty of delivery of key consumer benefits;
- maintain the overall net benefits of the project;
- recognise the importance of smart metering as an enabler of better consumer participation in initiatives responding to climate change; and
- allow for improved alignment with the emerging national smart meter framework.

A more detailed description of the agreed variations and the key implications are attached, for your information.

I would like to emphasise the importance of ensuring that the Victorian distributors have certainty in a timely fashion in order to secure their borrowings to progress AMI procurement activities. The Victorian application for a derogation to the National Electricity Rules is an important component of this "investment certainty". The timeline for the Victorian AMI program is now highly dependent on the Australian Energy Market Commission's decision on my derogation application, and I am therefore keen that no further deferrals are contemplated.

Please contact Mr Peter Clements (Director Retail and Distribution Policy, Energy Division, Department of Primary Industries) on telephone (03) 9658 4927, for any further information you may require.

Yours sincerely



Peter Batchelor MP
Minister for Energy and Resources

6 / 9 /2008

Encl.

Further Information

Background

At the end of March 2008, the AMI Industry Steering Committee (ISC), the peak body responsible for the coordination of cross-industry implementation activities, informed me of a number of implementation concerns. Broadly that, under the scope and designs being progressed by industry:

- anticipated changes to National Energy Market rules, procedures and systems (outside of the control of the Victorian Project) would be more complex, and the impacts more pervasive, than had previously been envisaged;
- certain statutory timelines and targets (as established by the AMI Cost Recovery Order in Council, gazetted on 28 August 2007) for meter deployment and operation, were no longer achievable; and
- given that further work was occurring on the national smart meter framework, risks existed of potential inconsistencies with the Victorian approach, noting a range of decisions yet to be made (at the time) by the Ministerial Council on Energy.

Following extensive discussions between industry and Government, the ISC has recently provided recommendations to modify the project to proceed on a basis that will significantly mitigate, or allow for improved management of, these earlier concerns.

The Victorian Government has now considered and accepted these recommendations and I am writing to update you of these decisions, as outlined below:

1. Statutory timeframe and targets

The commencement of meter deployment has been deferred from early 2009 to mid 2009 and the completion date for meter deployment has been deferred from end 2012 to 2013. Interim deployment targets are to be adjusted as follows:

Statutory Target	Original Date	Revised Date
Minimum 5% of smart meters deployed	31 December 2009	30 June 2010
New milestone for revised project Minimum 10% of smart meters deployed	*Not originally specified*	31 December 2010
Minimum 25% of smart meters deployed	31 December 2010	30 June 2011
Minimum 60% of smart meters deployed	31 December 2011	30 June 2012

Statutory Target	Original Date	Revised Date
New milestone for revised project Minimum 95% of smart meters deployed	*Not originally specified*	30 June 2013
Completion of project	31 December 2012	31 December 2013

These revised timeframes reflect an improved understanding of the timeframes for the earliest delivery of production-quality AMI technologies and systems from vendors, pursuant to the formal procurement processes being undertaken by the distributors.

Further an extension of the rollout program (from four to four-and-a-half years) provides more time to cost effectively resolve potential communications issues for "difficult to reach" customer sites.

The ISC believes that, subject to the distributors having "investment certainty" within the required timeframe (discussed below), the revised deployment targets are practical and achievable.

2. Project design

The design of the project will be modified to more fully utilise existing market processes and procedures and avoid the need to pre-empt national consideration of appropriate metrology procedures and an "end-state" AMI metering classification.

Under this approach:

- a primary objective is that only essential changes to the National Electricity Rules, Metrology Procedures, B2B Procedures, and other nationally enforceable instruments are proposed;
- the Victorian AMI Project will adopt the existing Type 5 metrology classification, until a nationally agreed metrology type for smart metering is defined, agreed and can be effectively implemented;
- distributors will still install AMI infrastructure that meets the full range of functionality and performance requirements of the Victorian Functionality Specification[1]. (Attachment 1 lists the functionalities, approved by the Ministerial Council on Energy for inclusion in a national minimum functionality specification, and confirms that all of these functionalities will be delivered by the Victorian project.)
- the services that require changes to the national processes and systems will be enabled as these changes are made and there is a net benefit to do so.

[1] As published in October 2007 – see the Department of Primary Industries' website: www.dpi.vic.gov.au/energy

This approach significantly reduces the complexity of systems and processes to be implemented (reducing a key project delivery risk) and also avoids the need for an extensive range of changes to national instruments to support the Victorian project, in advance of anticipated national consideration of these matters.

3. Delivery of benefits

The Victorian AMI Project will focus on the delivery of benefits in four key areas:

1. the provision of interval metering data;
2. the remote collection of metering data (with daily delivery of this data to retailers and the market, NO LATER THAN from 1 January 2012);
3. remote de-energisation of supply; and
4. remote re-energisation of supply.

The following table notes which of the originally prescribed "services" (that is, those services that are supported by formal B2B processes between distributors and retailers) have been revised. None of the revisions are expected to have a material impact on the flow of benefits.

Service Level	Originally Prescribed	Included in Revised Delivery Project	Comment
Routine Read - Remote	Yes	Yes	Daily remote reading must apply from 1 January 2012 (before this date, remotely read interval data will be provided in accordance with existing market obligations).
Meter Event Advice	Yes	Collected from a meter but *improvements* to B2B messaging deferred	Meter events will still be captured by a distributor but will not be provided to retailers on a daily basis. Where events relate to matters of concern for a retailer (for example, a tamper detected), these matters will be escalated using existing or ad hoc processes.
De-energisation – Remote	Yes	Yes	Customers will be remotely re-energised (and benefit from the avoided costs of a site visit) but the initial systems will not be capable of immediately advising retailers of the status of their de-energisation – hence retailers may not always be able, in turn, to commit to the associated timeframes with customers in advance.
Re-energisation – Remote	Yes	Yes	Customers will be remotely re-energised (and benefit from the avoided costs of a site visit) but the initial systems will not be capable of immediately advising retailers of the status of their re-energisation – hence retailers may not always be able, in turn, to commit to the associated timeframes with customers in advance.
IHD Message – Remote from Retailer	Yes	No	Key impact is that retailers will not be able to send critical peak pricing (CPP) notifications, for example, via the *AMI communications infrastructure. Rather,* a retailer would be required to provide such pricing signals via alternative media – such as an SMS message or day-ahead newspaper notices.

Service Level	Originally Prescribed	Included in Revised Delivery Project	Comment
Remote Controlled Load Over-ride	Yes	No	Retailers will not be able to automatically over-ride the settings for a controlled load (connected on a dedicated controlled load circuit).
Read Meter Information	Yes	Collected from a meter but improvements to B2B messaging deferred	Meter settings and statuses will, like meter events, still be captured by a distributor but will not be immediately provided to retailers. Where settings and statuses relate to matters of concern for a retailer, these matters will be escalated using existing or ad hoc processes.
Change Non-Metrology Meter Settings	Yes	No	Retailers will not be able to change non-metrology meter settings automatically and would need to arrange for necessary settings to be changed by a distributor using an ad hoc request. This relates, for example, to changing internal timeclock settings.

Attachment 1 lists the current national functionalities and Attachment 2 identifies the approach for establishing and implementing corresponding service levels for these functionalities.

Implications for the AMI Project

The recent variations provide a number of significant benefits for both the Victorian AMI Project and its standing as the first wide-scale mandatory deployment congruent with the MCE's emerging national framework:

Significantly reduced project delivery risks

The agreed variations significantly reduce the delivery risk of the Victorian AMI Project.

Improved certainty of delivery of key consumer benefits

Reducing the delivery risk improves the certainty of delivery of the key consumer benefits, particularly those associated with the remote collection of interval meter data and remote de-energisation and re-energisation functionalities.

As confirmed by the MCE National Cost Benefit Analysis, the delivery of "core" services will deliver significant operational efficiencies and lead to immediate savings for consumers.

The Victorian Government has considered the option of fully deferring the AMI Project until the national framework is established. Whilst having certain merits, this option places at risk the early realisation of consumer benefits associated with core services, and places the rollout itself in question. In accepting the modifications to the project proposed by the ISC, the Victorian Government reaffirms its commitment to an accelerated wide-scale rollout, delivering a fully-capable AMI infrastructure and seeking to enable services (and enable the

consequential flow of benefits to consumers) in a practicable and achievable manner.

Overall net benefits

In March 2008, the Victorian Government initiated an expert internal review of the costs and benefits for the AMI project, taking account the findings from the MCE's national smart meter cost benefit analysis, and the draft cost submissions of the Victorian distributors to the Essential Services Commission (as part of the AMI Price Review). This review confirmed a positive net benefit to consumers.

Smart metering as an important enabler of enhanced consumer participation in initiatives responding to climate change

The commitment of the Victorian Government to the rollout of AMI has been made recognising the importance of consumer participation in regard to climate change initiatives. Consumers will inevitably face increased costs for energy as Australia collectively responds to the challenge of climate change. AMI provides an important tool for consumers to better manage their energy use, and better understand the environmental consequences of their energy choices.

New timeframes in the context of the requested period of operation of the jurisdictional derogation

The accepted modifications to the AMI project defer the completion of the rollout to the end of 2013, coincident with the end of the requested period for the derogation. An extension to the derogation will not be sought.

Better alignment with national smart meter framework

Focussing on the four "core" services as part of the Victorian rollout will allow the potentially more sophisticated capabilities ("enhanced services") to be developed on a nationally consistent basis, under the envisaged national AMI program.

Any decisions regarding a new AMI meter type will also be progressed in accordance with the nationally agreed program.

In effect, these changes allow the Victorian rollout to proceed (maintaining project momentum and vendor commitment) without seeking to "invent the national landscape" for smart metering. The future completion of this national task is likely to allow the capture by Victoria of additional benefits arising from enabling the full suite of functionalities that are to be incorporated in the meters deployed under the Victorian AMI project plan.

Need for urgent investment certainties

It is now critically important to the immediate progress of the AMI Project that the Victorian distributors have a certain basis for their securing of borrowings to further their procurement activities. The Victorian application for a derogation to the National Electricity Rules is an important component of this "investment certainty".

Attachment 1 – Consideration of nationally identified smart meter functionalities

The Victorian distributors will install AMI infrastructure that is capable of meeting the functionality and performance requirements of the Victorian Minimum Functionality Specification.

The following table lists the full range of functionalities identified for inclusion in a national minimum specification for the purposes of completing the MCE's National Cost Benefit Analysis (CBA).

	Functionality	Supported by the Victorian Functionality Specification and delivered under the modified rollout?
1	Half-hourly consumption measurement and recording	Yes
2	Remote reading	Yes
3	Local reading – hand-held device	Yes
4	Local reading – visual display on meter	Yes
5	Communications and data security	Yes
6	Tamper detection	Yes
7	Remote time clock synchronization	Yes
8	Load management at meters through a dedicated controlled circuit	Yes
9	Daily remote collection of the previous trading days energy data	Yes
10	Power factor	Yes – three phase only (consistent with national position)
11	Import/export energy measurement (net)	Yes
12	Remote connect and disconnect	Yes
13	Supply capacity control	Yes
14	Load management at meters – dedicated control circuit	Yes
15	~~Interface to load control – direct~~	Yes
16	Interface to Home Area Network	Yes
17	~~In-home Display~~	No
18	~~Gas and water metering~~	Not an explicit requirement, although support for this is provided by the prescribed HAN interface.
19	Quality of supply and other event recording	Yes
20	Meter loss of supply and outage detection	Yes
21	~~Customer supply monitoring~~	No
22	~~Real-time service checking~~	Not an explicit requirement, although certain systems procured are likely to have this capability.
23	~~Interoperability – application layer~~	Not an explicit requirement.
24	~~Interoperability – devices~~	Not an explicit requirement.
25	Remote reconfiguration	Yes
26	Remote software upgrades	Yes
27	~~Separate base plate~~	Not an explicit requirement.
28	~~Non-meter board install~~	Not an explicit requirement.
29	Plug and play device commissioning	Yes

Note that "strikethrough" is used to identify those functionalities considered by the national cost benefit analysis but not recommended for inclusion in a national minimum functionality specification (these items are retained for completeness and ease of comparison against the CBA only).

Attachment 2 – Service Levels

The following service levels will apply. (Note that "service levels" refer only to the flow of information between responsible market participants. In instances where service levels have not been specified, this therefore does not imply that benefits are materially detrimented):

	Functionality	Service Levels	Applying From
1	Half-hourly consumption measurement and recording	Initially, current service-levels for Type 5 metering will apply. Note, however, that service-levels will be enhanced to daily delivery of data from 1 December 2012 (refer functionality 9).	From start of project.
2	Remote reading	Initially, current service-levels for Type 5 metering will apply. Note, however, that service-levels will be enhanced to daily delivery of data from 1 December 2012 (refer functionality 9).	From start of program
3	Local reading – hand-held device	No explicit service-level currently anticipated.	-
4	Local reading – visual display on meter	No explicit service-level currently anticipated.	-
5	Communications and data security	No explicit service-level currently anticipated.	-
6	Tamper detection	Any service-level to be determined by the National Stakeholder Steering Committee (NSSC) as a consideration when developing the national framework.	To be determined by the NSSC.
7	Remote time clock synchronization	No explicit service-level currently anticipated.	-
8	Load management at meters through a dedicated controlled circuit	Service-levels for the over-ride of controlled load settings to be determined by the NSSC. (Refer also to 14.)	To be determined by the NSSC.
9	Daily remote collection of the previous trading days energy data	It is anticipated that, once AMI technologies are proven at scale, that the service-level for remote reading could be enhanced. It may be appropriate to schedule a review around the completion of the pilot phase to determine the timing of this enhancement.	1 January 2012
10	Power factor	Any service-levels to be determined by the NSSC (as a component of a national framework).	To be determined by the NSSC.
11	Import/export energy measurement (net)	No explicit service-level currently anticipated. (Refer 1, 2 and 9.)	-
12	Remote connect and disconnect	To be remotely performed on a best endeavours basis as soon as practicable by distributors. Further service-levels to be determined by the NSSC (as a component of a national framework).	Start of project with further service-levels introduced as determined by the NSSC.
13	Supply capacity control	Any service-levels to be determined by the NSSC (as a component of a national framework).	To be determined by the NSSC.
14	Load management at meters – dedicated control circuit	Any service-levels to be determined by the NSSC (as a component of a national framework). (Refer 8.)	To be determined by the NSSC.
15	~~Interface to load control – direct~~	-	-

Functionality		Service Levels	Applying From
16	Interface to Home Area Network	Any service-levels to be determined by the NSSC (as a component of a national framework).	To be determined by the NSSC.
17	~~In-home Display~~	-	-
18	~~Gas and water metering~~	-	-
19	Quality of supply and other event recording	Any service-levels to be determined by the NSSC (as a component of a national framework).	To be determined by the NSSC.
20	Meter loss of supply and outage detection	Any service-levels to be determined by the NSSC (as a component of a national framework).	To be determined by the NSSC.
21	~~Customer supply monitoring~~	-	-
22	~~Real-time service checking~~	-	-
23	~~Interoperability – application layer~~	-	-
24	~~Interoperability – devices~~	-	-
25	Remote reconfiguration	Any service-levels to be determined by the NSSC (as a component of a national framework).	To be determined by the NSSC.
26	Remote software upgrades	No explicit service-level currently anticipated.	-
27	~~Separate base plate~~	-	-
28	~~Non-meter board install~~	-	-
29	Plug and play device commissioning	No explicit service-level currently anticipated.	-

Note that "strikethrough" is used to identify those functionalities and service levels considered by the national cost benefit analysis but not recommended for inclusion in a national minimum functionality specification (these items are retained for completeness and ease of comparison against the CBA only).