2 July 2015

Ms Anne Pearson
Senior Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Reference: ERC0182

Dear Ms Pearson

RE: Meter Replacement Processes Consultation Paper

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Consultation Paper in response to ERM Power's rule change request, *Meter Replacement Processes.* We also thank the AEMC for hosting the stakeholder workshop on this issue on 16th June 2015, which provided a helpful forum to discuss the potential impacts of the proposed rule on a range of stakeholders.

About ERM Power Limited

ERM Power is an Australian energy company that operates electricity generation and electricity sales businesses. Trading as ERM Business Energy and founded in 1980, we have grown to become the 4th largest electricity retailer in Australia, with operations in every state and the Australian Capital Territory. We are also licensed to sell electricity in several markets in the United States. We have equity interests in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which we operate. A subsidiary of ERM Power, Powermetric Metering Limited, is an AEMO-accredited Metering Provider and Metering Data Provider, operating since 2014.

General response

We are broadly comfortable with the AEMC's representation of the issues, proposed rule and rationale for the proposed rule outlined by ERM Power in the rule change request. We have not responded directly to the consultation questions, as we have previously outlined our views to most of these in the rule change request. Our submission responds only to issues where we believe we can provide additional insight, or where clarification is required. We also provide an assessment of the impact of the proposed arrangements for incumbent participants at a site, in response to stakeholder requests during the AEMC's workshop on 16th June 2015.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

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SUBMISSION TO METER REPLACEMENT PROCESSES CONSULTATION PAPER

Operational efficiency

ERM Power would like to clarify its rationale for the proposed rule in relation to operational efficiency.

Duplication of customer setup in billing systems

The AEMC represents that where metering installations cannot be churned before or on the transfer date, retailers would be required to maintain two separate billing systems.[1] This is not what ERM Power intended to communicate. The inefficiency we were referring to related to the tasks of setting up a customer in retailers' billing systems, including related customer communications.

The rule change request explains that where a customer chooses a product with a new retailer that requires higher metering capability than its existing meter, the current rules (with amended meter churn procedures from 1 September 2015) will create a transitional period; that is, a period of time between the start of a customer's new retail contract and the installation of a new meter that would enable the customer's chosen product. In these circumstances, the retailer will not be able to place the customer on their chosen product from the start of their retail contract, but would instead need to place them on a transitional product according to their existing meter capability. For example, where a small customer has an existing accumulation meter, and wishes to take up a time-varying tariff with a new retailer, the new retailer would need to initially charge the customer based on a flat tariff, and could only place the customer on their chosen time-varying tariff once a meter with interval data capability is installed.[2]

From an operational efficiency perspective, this leads to duplication of work for the retailer. The new retailer will be required to initially set up that customer in their systems based on a flat tariff (including their existing metering information, metering parties, and network tariff), and send the customer the required contract information relating to their transitional energy product. Once the new meter has been installed, the retailer would then be required to change these settings (to reflect their new metering information, any new metering parties, network tariff, and details of other enabled services). Depending on how the retailer established its customer contract for this scenario, the retailer would be required to either send additional communications to the customer to notify them of the change to their product, or provide a second contract information pack.

In addition to the cost of this task duplication, the additional complexity of customer contracts and billing arrangements across the transitional and ongoing arrangements would lead to further costs that could be avoided if the proposed rule was made, allowing the option for pre-transfer or transfer day meter replacement.

Whether customer setup for the transitional and ongoing products is performed in a single or separate billing systems will vary across retailers; this would be a commercial decision for each retail business.

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[1] AEMC, Meter Replacement Processes, Consultation Paper, 21 May 2015, p. 15

[2] At the AEMC's workshop, one stakeholder suggested that a retailer could avoid the customer impact of a transitional product by performing a range of estimations so that the customer could be charged based on their chosen tariff immediately, despite incompatibility with the existing meter and underlying network tariff. From a retailer perspective, this would generally require complicated system changes, and a level of risk that is likely to be unacceptable to many retailers (particularly where a material number of customers are concerned). We do not consider this to be a viable industry-wide solution.

Additional site visits for meter reading

An additional operational efficiency opportunity which we did not previously raise in the rule change request relates to performing final meter reads for existing manually-read meters which are subsequently replaced. Final meter reads are required both on the transfer date and immediately before a meter is replaced. Under current (and proposed) arrangements, one meter read can often serve both these purposes because the transfer date can be aligned with the meter replacement date. On the site visit, the prospective Meter Data Provider (MDP) may perform the final read for the existing meter prior to replacing the meter and send the data to the incumbent MDP, or the incumbent could read the meter themselves once the meter was returned.

Under the amended meter churn procedures effective from 1 September 2015, these two reads could not be aligned, because the assignment of new roles and request of new meter could not occur until at least 26 business days after the transfer date. This means an extra site visit would be required for each transfer and manually-read meter replacement in the absence of the proposed rule. This additional visit represents additional cost to the customer that could be avoided under the proposed rule.

Customer engagement and satisfaction

The Consultation Paper indicates that there may be an adverse impact on customer satisfaction where a prospective retailer effects a meter replacement prior to the transfer date, where the transfer subsequently cannot be completed.[3] In the rule change request, ERM Power stated that it would be a commercial decision whether a prospective retailer chooses to take the risk of installing the meter where a transfer may still be cancelled (as it would bear the cost of reinstating the meter, as well as customer dissatisfaction, should the transfer not proceed). However, we emphasise that where a retailer does not want to take on the risk of replacing the meter in advance of the transfer date, the proposed rule would allow the retailer to effect meter replacement on the same day, or the days immediately following the retail transfer. This would enable the customer's choice of products from the start of their retail contract, while mitigating the adverse impact on satisfaction outlined by the AEMC.

Meter replacement on the same day or the days immediately following the retail transfer would not be allowed in the absence of the proposed rule.

The length of the transitional period

The length of the transitional period (between retail transfer and meter replacement) is an important factor in considering the materiality of the issues raised in the rule change request, because it indicates the length of time that a customer may be unable to access the benefits of their chosen product or service after the start of their retail contract. We believe analysis of the frequency of meter replacements being achieved within this timeframe is warranted. Below we assess a number of assumptions that underpin the 26 business day transitional period.

Meter provider performance requirements

Current market procedures suggest a transitional period of 26 business days between the transfer date and meter replacement under the amended procedures. This is based on a "best endeavours" obligation on Metering Providers to complete the meter replacement process within 20 business days of receiving a request to do so. The corresponding performance requirement is to complete 95% of requests within 20

[3] AEMC, Meter Replacement Processes, Consultation Paper, 21 May 2015, p. 19

businesses days, and 100% of requests within 40 business days, unless otherwise agreed with the responsible person.[4]

In ERM Power's experience as a responsible person, a material proportion of meter replacements exceed 20 business days. As AEMO is responsible for monitoring compliance with these performance level requirements, we recommend related data is assessed to confirm the extent of this issue across the industry.

For small customers, common reasons for delay include access issues, and site-specific safety issues including the identification of asbestos, meter board issues, or other defects. We believe a significant number of small customers are likely to experience elongated meter replacement processes due to these delays. We explore these further below.

Access issues

Access issues relate to circumstances where a metering party cannot access the meter at a customer's premises, either to perform a manual meter read, or to replace the meter. Circumstances include where a gate or meter box is locked, where there is a dangerous dog on the premises, or where access is refused. ERM Power has performed an assessment of instances where meter data substitution has been required for a small customer site, where access issues prevent a manual meter read. We found that across ERM Power's customers with basic or manually-read interval meters, 5.1% of meter reads were substituted due to access issues. This provides an indication of the prevalence of access issues that may also impact meter replacement.

Safety defects

The Advanced Metering Infrastructure (AMI) program in Victoria provides a good reference for the proportion of meter board and safety defects that may cause delays in other small customer meter deployments.

In its 2012 report on the safety of the AMI program, Energy Safe Victoria stated that at the time of publication, distribution businesses had replaced more than 40,000 meter boards, and identified a further 10,000 safety defects under the AMI rollout.[5] In total, this record of meter board replacements and other safety defects represents 4.2% of the 1.2 million meters that had been installed at the time of report publication.

It would not be unreasonable to expect that a similar proportion of meter replacements would be delayed under other meter deployments due to similar safety issues, extending the length of the transitional period experienced by customers. The length of the delays caused by these issues are likely to vary depending on the particular defect, and how it may be rectified (noting that customers are generally responsible for the rectification of meter board and customer-side wiring issues).

With one third of all homes built in Australia estimated to contain asbestos, we consider this is also likely to result in delays in the meter replacement process for a material proportion of small customers.[6]

While we understand that 26 business days is the length of the transitional period established by market procedures, we suggest this should be considered the minimum length of this period for the purpose of this consultation, as a material proportion of customers would experience longer transitional periods.

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[4] See cl. 4.15.1(b), Service Level Procedure: Metering Provider Services Category B for Metering Installation Types 1, 2, 3, 4, 5 and 6.
[5] Energy Safe Victoria, Safety of Advanced Metering Infrastructure, Report, 31 July 2012.
[6] https://asbestossafety.gov.au/top-5-questions-asbestos

Bilateral agreements between incumbent and incoming parties

The AEMC suggests that where an incoming retailer is unable to change metering parties prior to the transfer date, it may be able to enter into a commercial arrangement with the incumbent metering parties to allow meter replacement before the retail transfer date.[7] ERM Power notes that as the incoming retailer could not be the responsible person for the site until after the transfer date, this would also require commercial agreement with the incumbent responsible person (who for small sites would often be the distribution business) to clarify the rights and responsibilities of the metering parties and the new metering installation. Commercial agreement would also be required with the incumbent retailer, whose product at the site may be impacted (for example, where the network tariff is reassigned following meter replacement).

All these commercial agreements represent additional administrative tasks that would not be required under the proposed rule. ERM Power considers that if the majority of metering parties, retailers and responsible persons are willing to enter into such agreements, than encoding these rights and responsibilities in the Rules as proposed by the rule change request would be a more efficient outcome.

Further, we consider that the existing objection provisions for role assignment in MSATS represent a transparent and efficient agreement process between incumbent and incoming parties (albeit on an opt-out basis). Where the incumbent metering parties, retailer or responsible person believe the roles should not be reassigned, or the meter should not be replaced, current market procedures provide five business days for them to object. We therefore conclude that the proposed rule would establish a more efficient and transparent solution to the identified issues than bilateral agreements between incumbent and incoming parties.

Impact on incumbent parties

During the workshop on 16th June 2015, a number of stakeholders requested a further assessment of the potential impact of the proposed rule change on incumbent parties. Below we outline the expected operations of the proposal for incumbent metering parties, retailer, responsible person, and customer. We understand that this level of detail is not directly in scope for this rule change consultation, however given stakeholder interest, we would like to make this assessment available.

Note that we have made some small changes to the proposed approach at a transactional level (with no direct impact to the proposed change to the NER) compared to that illustrated in the rule change request.[8] The changes are depicted in *orange* in the figures that follow, and explained in the accompanying text. These amendments address the issue outlined on page 17 of the rule change request, relating to periods of time where an incumbent is responsible for parties chosen by prospective participants.

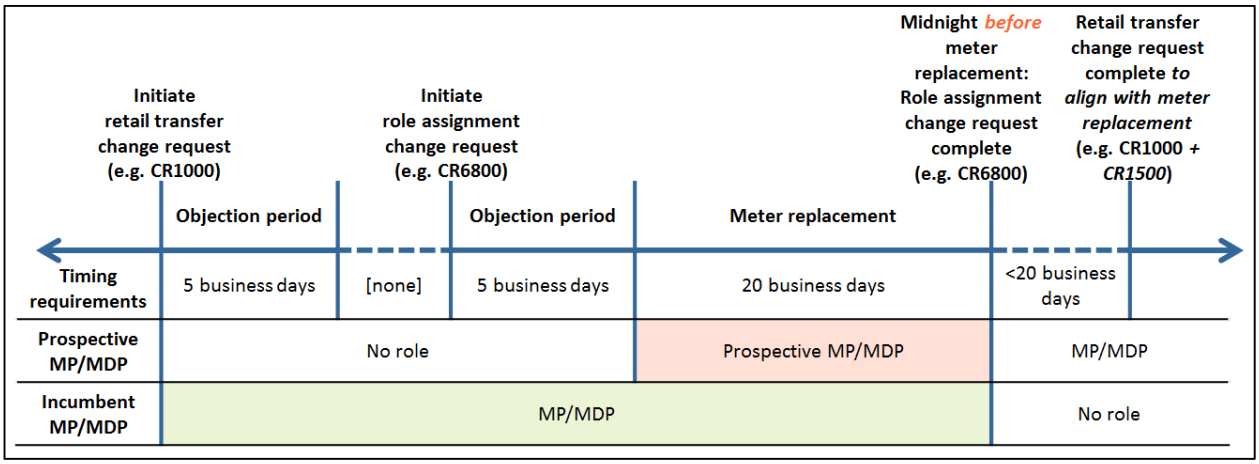
Metering Parties

The interaction of prospective and incumbent metering parties at a connection point under the proposed arrangements is illustrated in Figure 1 overleaf.

[7] AEMC, Meter Replacement Processes, Consultation Paper, 21 May 2015, p. 20

[8] These changes relate to details of the proposed approach that would be clarified during the procedure change process, if the proposed rule was to be made.

Figure 1: Proposed arrangements for metering parties



Under ERM Power's proposed arrangements, the incumbent metering parties (MP/MDP) would be notified of the proposed assignment of new metering parties (and intention to replace the existing meter at a customer's site) when a role assignment change request is raised in MSATS by the prospective responsible person (or metering coordinator under the proposed metering competition rule, RP/MC). The incumbent metering parties would then have five business days to log an objection to the reassignment in accordance with the MSATS Procedures.[9] Where there is no objection, the prospective metering parties will be formally considered in those prospective roles (whether in MSATS, or simply for the purpose of allocating their rights and obligations under market procedures) from the end of the objection logging period. The prospective metering parties may then make arrangements to replace the existing meter.

The existing meter must be read immediately before it is removed. Rather than visiting the site to perform this itself, current practise is for the incumbent to either wait until the meter is returned to them to read the meter, or allow the prospective metering party to read the existing meter on their behalf, and send the data to the incumbent via a B2B transaction. We expect this practise to continue under the proposed arrangements to minimise the number of site visits required during the meter replacement process.

It is anticipated that the incumbent metering parties would continue to operate at the site as usual until their meter is replaced, however some rights may be transferred to the prospective metering parties (such as the right to raise certain change requests). This should be assessed during the procedure development process, should the proposed rule be made.

Under the framework proposed in the rule change request, the MP/MDP roles would transfer from the incumbent to the prospective parties on the midnight *following* the meter replacement. This would have required the incumbent to remain responsible for compiling the meter data for the day that the meter is replaced (the churn day), consistent with current practise. This involves combining part-day data from each of the existing and replacement meters to submit data for the whole churn day to the market, and is a current frustration for metering parties. On further consideration and consultation with stakeholders, we now believe that role transfer on the midnight *prior* to meter replacement would be preferable. This would remove the need for churn day data to be compiled across both meters, because the incumbent metering party could allocate data relating to churn day consumption to the day prior to replacement,

[9] MSATS Procedures: CATS Procedure Principles and Obligations

ensuring it is accounted for. The prospective metering party would then be responsible for delivering data to the market from the churn day forward, based only on the data from the replacement meter.

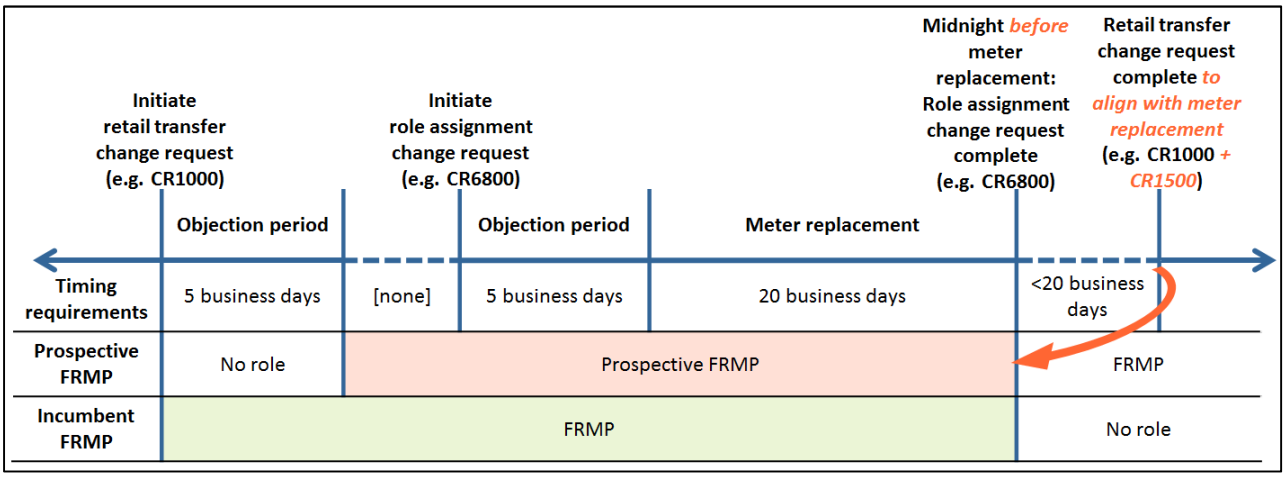
Where a meter is replaced in advance of retail transfer, it may be argued that the length of the incumbent metering parties' contract for services at the site is being prematurely terminated. We do not believe the proposed arrangements would cause a financial impact to the incumbent metering parties in this situation. This is because pre-transfer meter replacement is a common occurrence today, and early termination (whether due to retail transfer or otherwise) is already managed contractually between metering parties and the responsible person (or large customer). We also expect that all parties will regularly be both the incumbent and prospective party across connection points at any point in time, such that the net effect of change in contract length would be negligible at any rate.

It is also worth noting that compared to the current process, the proposed period of the incumbent metering parties are liable for the site under the Rules is reduced, such that it is proposed to relate only to the period where the incumbent's meter is installed. We believe this is appropriate from a regulatory perspective, as it reduces the regulatory risk for the incumbent parties.

Retailer (Financially Responsible Market Participant, FRMP)

The interaction of prospective and incumbent retailers at a connection point under the proposed arrangements is illustrated in Figure 2 below.

Figure 2: Proposed arrangements for retailer roles



Under the proposed rule, the incumbent retailer would be notified of the new retailer's intention to transfer the site when the retail transfer change request is raised in MSATS by the new FRMP (consistent with current practise). The incumbent retailer would then have five business days to object to the transfer in accordance with the MSATS procedures. If there is no objection, the new retailer would be formally considered the prospective FRMP (whether in MSATS, or simply for the purpose of allocating their rights and obligations under market procedures).

The incumbent retailer would also have the right to object to the prospective retailer's role assignment change request, in accordance with the MSATS Procedures.

The incumbent retailer would continue to bill the customer at the site and interact with the customer largely as it had before. It may be necessary to restrict some of the incumbent retailer's rights, such as the right to instigate a change of roles at the site (noting it would be able to object to the prospective retailer's role assignment change request). This should be assessed during the procedure development process, should the proposed rule be made. The incumbent retailer should also expect the prospective

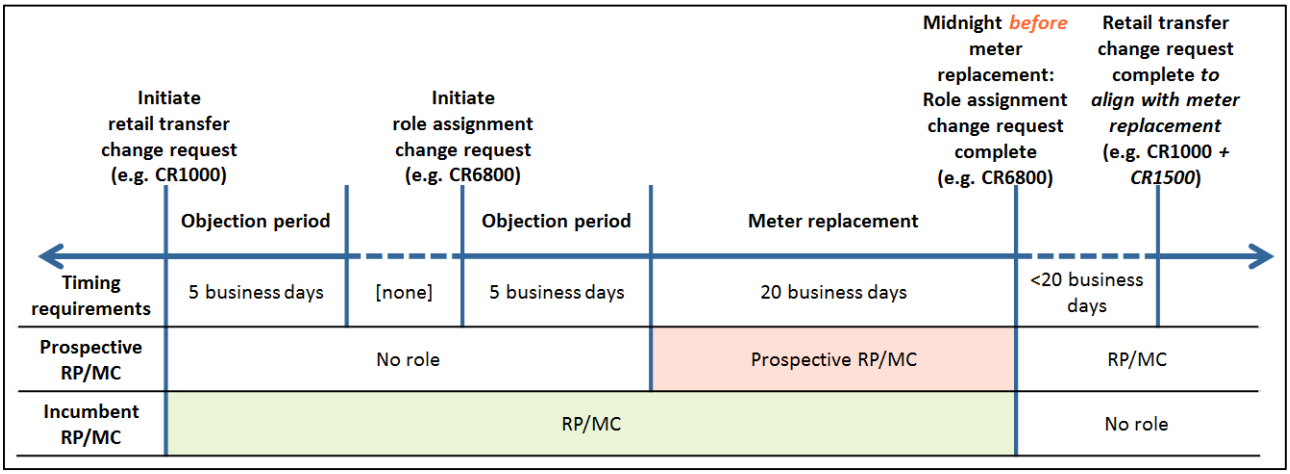
retailer and/or metering parties to be in communication with its customer to schedule the meter replacement or in relation to the new service.

Our amended proposal, as illustrated in Figure 2 above, recognises the current use of a "provide actual change date" change request (CR1500). This change request is performed by the prospective metering parties to retrospectively align the retail transfer date with the date of meter replacement. This can be used where the retrospective period is up to 20 business days, though in practise the period is generally shorter. This would ensure that the FRMP role transferred from the incumbent to the prospective party in MSATS at the same point as the other roles at the site (midnight before the meter replacement). In practise, the incumbent retailer would continue to operate at the site until the CR1500 is raised in MSATS, at which time the prospective retailer would be recognised in MSATS from midnight prior to meter replacement. This is largely how pre-transfer meter replacement is managed today, such that in MSATS the meter replacement is seen to occur on the transfer date.

Responsible Person

The timeframes for the transfer of responsible person roles from the incumbent to the prospective responsible person aligns with those of the meter parties at the connection point, as denoted in Figure 3 below. This ensures that the incumbent responsible person is only liable for metering parties it had engaged. We have not identified any adverse impacts for the incumbent responsible person under the proposed arrangements.

Figure 3: Proposed arrangements for responsible person roles



Customer

In the rule change request, ERM Power only considered the meter replacement process in scenarios where one customer was transferring between retailers. However, it is important that the proposed arrangements are also effective in move-in/move-out scenarios, where there is an incumbent customer at a site with an existing meter and an existing retail contract, and also a prospective customer seeking a new retail contract and meter at the site from their move-in date (which would also be the transfer date).

In these scenarios, a pre-transfer date meter replacement would be inappropriate. It would result in an outage for the incumbent customer, and could also impact the incumbent customer's retail contract. ERM Power therefore does not believe pre-transfer meter replacement should occur in move-in/move-out scenarios. Notwithstanding this fact, the proposed rule would still enable the option to replace the meter at the site on, or immediately following the transfer date. This would allow the prospective customer to benefit from a smooth transfer and meter replacement process, without any adverse consequences to the incumbent customer.