28 May 2014

Lisa Nardi
Senior Advisor
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Reference: ERC0169

Dear Ms. Nardi

RE: CONSULTATION PAPER - EXPANDING COMPETITION IN METERING AND RELATED SERVICES IN THE NATIONAL ELECTRICITY MARKET

ERM Power welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Consultation Paper on the Rule Change Request *Introducing a new framework in the National Electricity Rules that provides for increased competition in metering and related services* (Rule Change Request) submitted by the COAG Energy Council (CEC, formerly the Standing Council on Energy and Resources).

About ERM Power Limited

ERM Power is a dynamic Australian energy company with interests in electricity sales and generation, and gas production and exploration. Trading as ERM Business Energy and founded in 1980, we have grown to become the fourth largest electricity retailer in the National Electricity Market by load, with operations in every state. We initially focused on larger businesses but now offer our industry leading services to small businesses. We have equity interests in 497 megawatts of low emission gas-fired peaking power stations in Western Australia and Queensland, sell conventional gas and condensate from onshore discoveries in Western Australia, and have gas exploration operations in Western Australia and New South Wales.

A ring-fenced metering services business, wholly owned by ERM Power Limited, is expected to launch operations in 2014. Views expressed in this submission are also with consideration to the impacts for this business.

Expanding competition in metering and related services

ERM Power broadly supports the framework for competition in metering and related services proposed by the CEC, in particular:

- amendment to the current Responsible Person role (re-named as Metering Coordinator), to offer metering responsibility to parties other than the retailer and distribution network business, and to be independent of meter type;
- AER responsibility for determining appropriate exit fees to apply where a distribution network business's meter is replaced; and

- the unbundling of metering charges from distribution use of system charges, providing transparency to encourage competition in these services.

We do, however, also have a number of concerns with the Rule Change Request. ERM Power is particularly disappointed with the range of jurisdictional derogation provisions, despite consistent calls from the industry for national consistency. Not only do varying obligations increase operational costs for industry, but when related to physical assets such as metering installations and systems infrastructure, these represent a substantial investment risk. Further, the fact that the Rule Change Request explicitly suggests jurisdiction-specific policies undermines the national rule change process.

This submission explores the issues discussed in the Consultation Paper in the following format:

1. National consistency
2. Metering Coordinator role
3. Consent and information requirements
4. Network regulatory arrangements
5. Minimum functional specification

If you would like to discuss this submission further, please feel free to call me on the number below.

Yours sincerely,

[signed]

Jenna Polson
Manager, Regulatory Affairs
03 9214 9347 - jpolson@ermpower.com.au

1. NATIONAL CONSISTENCY

The Rule Change Request outlines a number of provisions for the development or continued application of jurisdictional policies in relation to metering and associated services. These provisions are summarised in Table 1 below.

ERM Power is disappointed that this Rule Change Request recommends jurisdictional derogation provisions. In addition to the inefficiencies inherent in operating within varying regulatory frameworks, investments in physical assets such as metering installations and systems infrastructure are placed at risk. We believe the development of national policies is required to support the development of a competitive market in metering and related services.

Table 1: Jurisdictional provisions

Provision	Stated Intent	Conditions
Jurisdictional power to prescribe Metering Coordinator (MC) exclusivity	To accelerate installation of specific meter types. It is not intended that a jurisdiction could mandate a smart meter rollout by a particular MC	▪ For small customers only ▪ May be one or more MC, or a class of MC ▪ May be for one or more meter types ▪ May be for specific network area
Continued jurisdictional responsibility for new and replacement policy	None stated	▪ Including any specifications which are required to be included in meters
Continued jurisdictional responsibility for no-reversion policy	To ensure deployments are 'sticky'	None

The first policy principle listed in the Rule Change Request to be reflected in the final rule is

> *"These rules apply generally across the National Electricity Market (NEM)".*[1]

We assume that this represents acknowledgement of the benefits of national framework, and yet this is not consistent with the proposal for jurisdictions to have the option to deviate from the national framework in a number of key areas. Neither the Rule Change Request nor the Consultation Paper provides justification for jurisdictional provisions in terms of the benefits they would provide, or the market failures they aim to address. It is therefore unclear why nationally consistent policies were not proposed through this national Rule Change process.

Economies of scale

The Consultation Paper acknowledges the need to consider the impact that jurisdictional policies may have on the competitive market and efficiencies that may otherwise be gained through a national approach. Potential market size is an important factor in developing a positive business

[1] Standing Council on Energy and Resources, *Introducing a new framework in the National Electricity Rules that provides for increased competition in metering and related services*, Rule change request, October 2013, p. 25.

case to begin managing small customer metering services or offering products enabled by advanced metering. This is because business efficiencies and economies of scale are more readily achieved in a larger market. Inconsistent jurisdictional policies can undermine those efficiencies, and where the required economies of scale cannot be achieved, the viability of a business case in servicing one or more jurisdiction may be at risk.

In particular, a mandatory national minimum functional specification and new and replacement policy would allow industry to confidently invest in metering provision, associated infrastructure and product development based on those requirements. This establishes the most accessible framework for market entrants, enabling the provision of smart meter-enabled services across the electricity market.

Where a regulatory framework varies across jurisdictions, the potential market size for a business is reduced, compromising economies of scale and potentially threatening the viability of a business' presence in that market. This therefore not only impacts the level of competition in a jurisdiction that has chosen to derogate away from a national approach, but can also impact other jurisdictions as the reduced scale becomes a barrier to entry.

Investment risks

The establishment (or risk of establishment) of inconsistent jurisdictional new and replacement policies also has the potential to undermine metering investments and create a barrier to market entry. For example, a business is likely to invest in specific metering stock, as well as systems and infrastructure to support that stock, based on the minimum functional requirements it deems appropriate for its business model. Continued jurisdictional responsibility for new and replacement policy creates a risk that the minimum requirements for new meters may change after a business has made investment decisions, such that the value of those investments may not be realised in one or more jurisdictions. Having one nationally consistent new and replacement meter policy, and certainty about when this will be implemented, would substantially reduce that risk and allow businesses to invest more confidently. The related issue of Minimum Functional Specification (MFS) is discussed later in this submission.

While we acknowledge that the intent of jurisdictional provisions may appear reasonable, we are concerned that these could be utilised by jurisdictions at any time in the future to support short term interests (which may or may not be aligned with the original intent), while risking investments in an emerging market. For example, the provision for Metering Coordinator exclusivity is not intended to allow a mandated meter rollout by one party. However there is a risk that it could be used in such a way that could risk the economies of scale required for the development of a competitive market, as described above. ERM Power does not support jurisdictional rights to prescribe Metering Coordinator exclusivity, including for Victoria where we believe the existing derogation can support a smooth transition to a national framework.

Developing a national policy

ERM Power urges the AEMC to consider the development of a national new and replacement meter policy and a national no-reversion policy. The establishment of such a policy would increase the viability of businesses in entering the metering service market, or offering enabled services. This in turn is expected to increase the range of services available to customers, and place pressure on service quality and price. Further, businesses will be able to make business investment with certainty that policy will be stable and cannot be changed without due process.

2. METERING COORDINATOR

The CEC's Proposal

The CEC proposes to amend the role of the Responsible Person, and rename the role to Metering Coordinator. The Metering Coordinator would have the same responsibilities and liabilities as currently attached to the Responsible Person under Chapter 7 of the NER. In particular, the Metering Coordinator would:

- retain responsibility for provision of metering and related services, including installation, maintenance and testing of the metering installation and collection, processing and delivery of metering data;
- be legally liable for accuracy of the metering installation and integrity and delivery of metering data;
- be registered and accredited by AEMO; and
- engage and coordinate the availability, dispatch, performance and payment of the Metering Provider and Metering Data Provider. [2]

Key differences between these roles are demonstrated in Table 2 below.

Table 2: Comparison of Responsible Person and Metering Coordinator

Policy	Current: Responsible Person	Proposed: Metering Coordinator
Who can perform this role?	Distribution network business or retailer only.	Any person registered with and accredited by AEMO, including: ▪ Distribution network business ▪ Retailer ▪ Metering service provider ▪ Other third party business
Who can engage a party to perform this role?	By default according to meter type, or otherwise by arrangement between retailer and LNSP	Contractually by the retailer by default, or otherwise by the customer.

ERM Power agrees that the proposed Metering Coordinator role is better aligned with a competitive metering framework compared to the current Responsible Person role. We particularly support the decision to separate the allocation of Metering Coordinator role from meter type, which will allow a Metering Coordinator the opportunity to service any range of sites it chooses. We agree with the AEMC's statement relating to competition benefits of the Metering Coordinator proposal:

> *In particular, allowing any registered and accredited party to be a Metering Coordinator would increase competition and innovation in range of functions and*

[2] For simplicity, in our submission we refer to these roles jointly as metering service providers.

associated services that could be offered to consumers. This in turn would lead to more efficient costs in provision of meters and related services.[3]

In addition to these competition benefits, we also expect that by allowing for metering service providers in particular to take on the Metering Coordinator role, there would be opportunities to better align liability under the NER with operational roles. This can improve the efficiency of compliance activities, and should therefore be an option available to the market. We discuss this further below.

Registration of Metering Coordinator

Currently, in order to take on the Responsible Person role, an entity must be registered as a Local Network Service Provider (distribution network business) or a Market Participant (retailer). During registration as a Local Network Service Provider or a Retailer, the entity's capacity to act as Responsible Person is not explicitly assessed, as the Responsible Person duties are an intrinsic part of these roles, and are governed by the NER. Compliance with Responsible Person obligations is monitored and enforced by the Australian Energy Regulator.

The gatekeeper role

The Consultation Paper explores whether the Metering Coordinator should take on any additional responsibilities compared with the existing Responsible Person role. In particular, it discusses responsibilities related to a gatekeeper role initially canvassed under the Open Access and Common Communication Standards consultation. Under that consultation, the gatekeeper role was introduced to represent the additional responsibility of managing the point of access to a smart meter that the AEMC expects will result from multi-party access to meters. These responsibilities relate to management of:

- the level of access;
- data security arrangements;
- congestion on the smart meter communications network; and
- validation of messages sent between the accredited parties and the smart meters.

ERM Power does not believe that a Metering Coordinator should have any additional responsibilities or duties compared to the current Responsible Person role, including those related to the proposed gatekeeper role. In our view, the additional responsibilities associated with the gatekeeper are better aligned to that of the Meter Provider or Meter Data Provider, rather than the Metering Coordinator. Meter Providers and Meter Data Providers perform these gatekeeper duties today to some extent, with the exception of congestion management. Congestion management may be required where multiple parties frequently attempt to simultaneously communicate via a point of access. We believe that it is unlikely that frequent simultaneous access attempts will be commonplace in the foreseeable future. Infrequent simultaneous attempts can be addressed by using simple automated messaging prioritisation rules.

[3] AEMC, *Expanding competition in metering and related services in the National Electricity Market, Consultation Paper*, April 2014 , p.30.

We therefore propose that gatekeeper requirements represent a mandatory update to the existing meter service provider accreditation, so that existing meter service providers would have to complete this update by a specified date. For new meter service providers, a new accreditation process should cover both existing role requirements, and the requirements of the gatekeeper update.

Metering Coordinator registration requirements

We believe the Metering Coordinator role should be classified as a Registered Participant under the NER. This is likely to reduce changes required from the existing Responsible Person arrangements, while providing clear accountability under the NER, and will also ensure competitive neutrality between new and existing participants. Parties who currently perform the Responsible Person role today would not be required to undertake any additional registration, which we believe is appropriate given our position that the Metering Coordinator role should not require any new responsibilities beyond those currently faced by the Responsible Person.

Retailer as Metering Coordinator

Under the CEC's proposal, either a retailer or the customer may engage the Metering Coordinator for a connection point. The retailer may also take on the Metering Coordinator role itself.

The Consultation Paper considers an alternative arrangement where the responsibilities of the Metering Coordinator are added to the Meter Provider role, so that the Metering Coordinator role could not be taken on by Registered Participants or other parties. ERM Power does not support this alternative arrangement, but rather supports the CEC's proposal where any registered party may take on the Metering Coordinator role.

Metering services, like other electricity supply costs, are generally[4] bundled into a market retail product (contract), and the retailer bills the customer for these services on behalf of other participants. The retailer also acts as the primary communication channel between the customer and industry. It is therefore important that the retailer has the option to take on the Metering Coordinator role to ensure a customer's choice of retail product offering is supported by the required metering services in instances where other parties are unable to guarantee this.

Where a retailer is required to rely on another party to act as the Metering Coordinator, there is a risk that the metering installation or associated services may be altered by that party in such a way as to compromise the retailer's service offering. For example, replacement of a meter can trigger mandatory reassignment of the network tariff for a site, which may not be compatible with the retail product offering under the customer's market contract. Or the Metering Coordinator may not be able to deliver the metering functionality or support systems required to perform services required under a retail contract. By providing the retailer the option to take on this role itself, these risks can be addressed as the retailer has greater control over the parties contracted and solutions delivered.

Further, by allowing a range of parties to take on the Metering Coordinator role, the number of competing parties is increased, which is likely to drive higher performance standards, lower costs, and a greater range of services.

---

[4] We estimate that only about 1% of large customers are directly charged for metering services by the metering service provider.

Metering service providers as Metering Coordinator

The AEMC explores a second alternative arrangement to the proposed Metering Coordinator framework where the Responsible Person role remains limited to the retailer or distribution network business, but allows retailers to act as Responsible Person for any meter type. We agree that by expanding the range of sites a retailer may be responsible for would increase competition compared with the current arrangements. However we do not believe this alternative proposal would deliver the depth of competition benefits of the CEC's proposal where the Metering Coordinator is not limited to specific parties. Further, we believe that by allowing the engagement of metering service providers in particular as Metering Coordinators, the alignment of NER liability with operational responsibility offers important efficiency gains that should be available to the market.

Existing arrangements mean that the retailer or distribution network business that is the Responsible Person for a site holds NER liability for a connection point. This is despite the fact that Meter Providers and Meter Data Providers must be engaged to perform the meter installation, maintenance and testing, and the collection, processing and delivery of metering data for that connection point. It is therefore necessary for both the Responsible Person and their service providers to maintain compliance controls and processes in relation to the same metering tasks. This represents duplication and inefficiency. By allowing a metering service provider to directly take on NER obligations through engagement as the Metering Coordinator, duplication can be reduced.

For example, the recent focus on instrument testing has particularly highlighted this inefficiency. A retailer Responsible Person must coordinate the testing of its assets by a number of contracted Meter Providers, who may adopt different testing methodologies and progress at different rates. The option to allow Meter Providers to take on NER liability for their own assets, and therefore manage their own testing, could have simplified this process.

Risks associated with responsibility allocation can be further complicated in circumstances where customers choose to directly engage their own metering service provider, as is the case for about 80% of ERM Power's large customers. While the retailer Responsible Person remains liable under the NER for the provision and maintenance of metering at the site, they may be limited in their ability to negotiate terms with the customer's choice of metering service provider who has operational responsibility for the site.

The CEC's proposed Metering Coordinator role would provide a transparent framework for responsibility allocation in these situations, providing the option for the customer or retailer to engage the metering service provider to act as the Metering Coordinator where this is appropriate to their situation.

Distribution network business as Metering Coordinator

The Consultation Paper proposes that each distribution network business should take on the Metering Coordinator role as a transitional arrangement for those meters where it was the Responsible Person prior to commencement of the Rule Change.

ERM Power supports the continued responsibility for these meters by distribution network businesses at the commencement of Metering Coordinator arrangements. We believe that the distribution network business should be deemed to have been engaged by the retailer at the commencement of the Rule Change, however other parties may also compete for this role from

that time. That is, from Rule commencement the retailer or the customer may engage another party to act as Metering Coordinator.

Metering Coordinator engagement

Arrangements between retailers and Metering Coordinators

CEC proposes that the engagement of a Metering Coordinator for a metering installation should be by commercial arrangement, the terms of which would be negotiated between parties. However a standard contract is also to be considered by the AEMC, which may define terms relating to contract length, termination fees, and exclusivity restrictions.

The Rule Change Request states[5] that where a customer chooses to switch retailers, the incoming retailer would be required to honour the outgoing retailer's contract with the Metering Coordinator. ERM Power does not support this recommendation, believing it is imperative for retailers and Metering Coordinators to be able to negotiate their own terms to ensure service delivery aligns with particular product offerings and business requirements.

In particular, an incoming retailer cannot be required to honour terms relating to pricing, contract duration or advanced services offered, which may not align with the new retailer's usual business practise. We also question the readiness of the incumbent retailer to share their contract with the new retailer, given it is likely to contain commercially sensitive information.

The proposed requirement to honour existing contracts was adopted from the AEMC's Power of Choice Final Report, [6] and we understand was intended to address a perceived risk of inefficient meter churn during retailer switching.

When considering the levels of meter churn that currently exist for large customer sites, it is important to separately consider cases where retailers contract metering service providers on behalf of customers, and cases where customers choose to contract their service providers directly.

In cases where retailers engage metering services, there are strong commercial incentives to retain the existing meter at a customer's site whenever the existing providers can offer the services required by the incoming retailer. A Meter Provider's predominant concern is to ensure the retention of its assets at each site for as long as possible, so as to extract maximum value from that asset while minimising costs associated with manual installations and removals. This strong commercial driver leads to a Meter Provider making an offer to an incoming retailer as the Responsible Person[7] to retain the existing asset at the site. The same incentives apply in the case of the Meter Data Provider, who also negotiates with the incoming retailer to continue servicing the site.

It is ERM Power's current practise to always negotiate with existing metering service providers when we acquire a new site. As long as these service providers are able to deliver the services

---

[5] Standing Council on Energy and Resources, *Introducing a new framework in the National Electricity Rules that provides for increased competition in metering and related services, Rule Change Request*, October 2013, p.9

[6] AEMC, *Power of choice review - giving consumers options in the way they use electricity, Final Report*, November 2012, p.87

[7] Under proposed arrangements, this negotiation would occur with the Metering Coordinator, in consultation with the retailer as required.

required, the meter will be retained. In our experience, only about 5% of meters churn when we acquire a new customer and engage metering service providers for the site. We therefore do not believe the risk of inefficient meter churn is material, and do not support regulatory intervention in this area.

In contrast, about 25% of meters churn when ERM acquires a large customer who contracts their choice of metering service providers directly (or through an agent). In these situations, the customer values their right to contract their preferred provider and is willing to pay the associated costs. We consider this an acceptable outcome, consistent with the objectives of the Power of Choice Review.

Assignment of Metering Coordinator responsibilities

ERM Power is concerned about the CEC's proposal to allow a Metering Coordinator to assign its responsibility to another Metering Coordinator (in cases where there are no changes to the contract with the party engaging the original Metering Coordinator). The assignment of responsibilities does not guarantee the original Metering Coordinator remains liable to the retailer or customer (as applicable) for the performance of services undertaken by the third party. Rather, ERM Power would support the provision for a Metering Coordinator to subcontract its responsibility to another Metering Coordinator, which ensures full transfer of liability to that party.

Non-discrimination between retailers and Metering Coordinators

The Consultation Paper questions whether a there is a risk that a retailer who is affiliated with a metering service provider may access more favourable terms compared to a non-related retailer (when contracting the Metering Coordinator role or for metering service provision arrangements). ERM Power does not consider there is material risk of discrimination in this scenario, due to the existing ring-fencing requirements, and the strong commercial incentives on metering service providers to establish positive relationships with a range of retailers.

Clause 7.4.2(d) of the NER prohibits a retailer from registering as a Meter Provider for any connection point it services. This means that where a retailer and Meter Provider are related entities (and could potentially service the same connection point(s)) they must be separate ring-fenced entities. This ring-fencing requires separation of costs and funding, staff and physical office space, and limitations on the flow of information. These ring-fencing requirements were designed to address any competitive advantage that the entities may have over non-related parties, including the ability to discriminate.

There are also strong commercial incentives at play which we believe will lead to vigorous competition for all retailers' business. Regardless of corporate affiliations, a metering service business must achieve scale in order to be successful. Even in the case of large retailers, it would not make commercial sense for a service provider to focus its business only on the customers of its related retailer when the majority of potential customers lie with other retailers. Further, the inevitable switching of customers away from any retailer means that a metering service provider who does not offer appealing terms to non-affiliated retailers would quickly find its meters being removed.

We therefore do not consider there to be material risk of discrimination between related parties and other contestable businesses.

Arrangements between customers and Metering Coordinators

Under the CEC's proposal, all customers would have the right to engage the Metering Coordinator for their own site if they choose. As previously discussed, the majority of large customers engage directly with metering service providers today. Under the new arrangements, this could continue by the customer engaging the Metering Coordinator (who may be one of the metering service providers, or another party).

It is expected that in the short term there would be little demand for small customers to engage their own Metering Coordinator. Generally the customer would choose a retail product, and expect their retailer to engage a Metering Coordinator on their behalf to deliver the necessary metering services.

We consider that there may be circumstances where provisions for a customer to engage the Metering Coordinator directly may better deliver the customer's chosen metering solution. Consider a situation where a third party offers a new service to a customer, however the existing Metering Coordinator for the site is unable to provide the required metering solution through its preferred metering service providers. If the customer wants this new service, and the third party is able to secure the required metering solution through another Metering Coordinator, than the customer should have the right to request that option.

While we acknowledge the benefits of this provision, ERM Power is concerned about the practicalities of enabling both the customer and the retailer the right to engage the Metering Coordinator. Rules would need to clearly establish the circumstances under which one engagement would take precedence over another, and how a customer would be appropriately informed of the implications for their existing products and services due to a change in Metering Coordinator.

We suggest further work should be undertaken to gain a clearer understanding of the practical application of direct customer engagement provisions.

The Consultation Paper considers whether customer protection arrangements are required to govern the relationship between customers and the Metering Coordinators they may directly engage with. ERM Power is of the view that customer protections should apply to entities in a uniform way so as to maintain competitive neutrality. We believe it is now necessary to update the National Energy Customer Framework to account for the range of emerging businesses providing services to customers directly.[8] We understand that the CEC is undertaking a review relating to third party service providers in the energy market, and suggest that this issue is addressed under that review.

[8] See ERM Power's submission to the AER's Issues Paper on Alternative Energy Sellers, November 2013, http://www.aer.gov.au/sites/default/files/131122%20AER%20Alternative%20sellers_ERM%20submission.pdf

3. CONSENT AND INFORMATION REQUIREMENTS

Information required for customers

Consent for meter replacement

The CEC proposes that the retailer would be required to obtain customer consent when meter replacement or alteration results in a change to the costs or services outlined in the customer contract. Where there is no change to the costs or services agreed to in the customer contract, the CEC proposes that the retailer would only be required to inform the consumer of the proposed change, for example by letter. The Consultation Paper states that in this circumstance it is expected that the customer would have the right to opt-out, and we discuss this below.

ERM Power supports this approach in instances where the retailer has engaged the Metering Coordinator. Where the customer has engaged the Metering Coordinator directly, we consider it appropriate that the Metering Coordinator would be responsible for meeting these consent and information provision requirements, rather than the retailer.

Metering charges

The Consultation Paper also outlines a proposal for retailers to inform small customers of their metering service charges. We agree that increased transparency of metering service charges will facilitate customer engagement and competition in metering services.

The method of advising customers of these charges must be at the retailer's discretion. In particular, retailers should not be required to include metering charges on customer bills. Customers would be likely to perceive this as the addition of a new charge, rather than the unbundling of existing charges, and we expect would lead to undue customer confusion.

Alternative retail tariff

The CEC also proposes that the retailer must inform customers of the retail tariff that would be offered if these charges were removed. We do not support this requirement, as it would restrict a retailer's ability to offer customers bundled products, which are attractive to many customers. It is expected that retailers may offer bundled products where eligibility is conditional on the customer receiving a specific metering service. In these cases, there may not be an equivalent retail tariff which excludes metering service charges to provide an adequate comparison.

It would be reasonable for a retailer's standing offers to be structured so that customers may choose to include or exclude metering charges in line with their preference to engage their own Metering Coordinator. The standing offer would therefore remain an option for any customers who would prefer this to a product where metering charges are bundled.

Metering service charges themselves are the most appropriate comparison metric to assist customers to understand the suitability of different metering services, rather than retail tariffs which are subject to numerous variables. The disclosure of metering service charges as discussed above would be sufficient to support customer decision making.

Opt-out provision

The Rule Change Request does not appear to explicitly propose a provision for customers to opt-out of a meter upgrade. The Consultation Paper states an expectation that a customer would

have this right, but does not provide further details. We believe this issue is linked to the discussion of whether a retailer or customer's engagement of a Metering Coordinator should have precedence over the other. If, for example, a retailer's engagement was deemed to take precedence, than an opt-out provision would be redundant. A decision on this matter is likely to provide a clearer direction relating to whether an opt-out provision is appropriate.

If adopted, an opt-out provision must be appropriately designed to recognise customer choice while encouraging broad take-up of advanced meters. In particular, the required communications approach and notice period provided will be important to ensure customers have sufficient opportunity to make an informed decision, without excessively delaying the industry benefits enabled by meter enhancement. Customer perceptions of this process will have implications for the level of complaints to be managed by industry, and may influence perceptions of the broader metering policy.

Information required for retailers

As previously discussed, a retailer is responsible for managing various services associated with delivering electricity to a customer, and presenting this to customers as a range of retail products. A retailer must therefore remain informed about any changes to these services to ensure delivery aligns with particular product offerings and business requirements.

The CEC proposes an amendment to the NER to require Metering Coordinators to inform the retailer only where a change in meter results in material change to the customer services, costs or contract terms. We do not support this proposal. We do not believe the Metering Coordinator is likely to have the required information to assess the change to retail costs, network tariffs, or contract terms agreed between the retailer and the customer (unless the retailer is itself the Metering Coordinator). Further, we do not consider it the Metering Coordinator's place to determine what outcomes may be material to a retailer. ERM Power believes a retailer must be informed of every meter replacement which occurs to its customers' sites, and requirements of this advice must be developed to ensure it is timely and provides all required details of the replacement.

4. NETWORK REGULATORY ARRANGEMENTS

Unbundling of metering charges from distribution use of system charges

We welcome the CEC's recognition that unbundling metering charges from distribution use of system charges (by classifying metering services as alternative control services) will provide greater transparency to facilitate competitive negotiations. The AER's progress to date in effecting this is positive, providing greater certainty to support business decisions. At this stage we are not aware of any changes to the NER that are required to facilitate this process.

Exit fees for meter removal

ERM Power supports the proposal for the AER to independently determine reasonable exit fees for type 5 and 6 meters where the distribution network business was the Responsible Person prior to the commencement of the Rule Change.

We broadly support the criteria the CEC proposes the AER consider when determining exit fees. In particular, we emphasise the importance of determining a separate fee for type 5 meters

compared to type 6 meters, as well as the need to re-calculate the average age of existing stock annually. The appropriate setting of exit fees should provide an efficient price signal for replacement of old meters in preference of newer meters. The existing practice of refurbishing an existing meter to install as if it were new should also be discouraged, as this is misleading to the market and hinders investment decisions.

Installation of advanced metering under a demand management program

ERM Power believes that in general, contestable providers will be the parties to initiate the installation of advanced meters, and that retailers will be responsible for communicating the benefits and implications of meter replacement with customers. While we acknowledge the network benefits that can be realised through the installation of smart meters, retailers are better placed to present meter upgrades to customers in terms of their overall energy service or the customer's electricity bill (including the network benefits).

Having said that, we recognise that there are scenarios where the installation of advanced meters can enable demand management services that aim to address network constraints in specific locations. It is therefore appropriate that distribution network businesses should have the option to install advanced metering under a demand management program. We understand that under a demand management program, a distribution network business is required to seek offers from competitive providers to perform the required services, and demonstrate to the AER that its engagement decisions are commercially sound.

It is imperative for the development of the competitive market that this process is transparent so that competitive providers have the option to become involved if they wish. Retailers and Metering Coordinators of the sites concerned should be provided with advance notice of the intention to upgrade the meters so that if they were also planning to upgrade the meter at a site, arrangements may be made to ensure the replacement meter meets both parties' needs.

Appropriate ring-fencing between distribution network businesses and any affiliated metering service providers is necessary to ensure competitive neutrality during this process, as discussed below.

Ring-fencing for distribution network businesses

The Consultation Paper discusses the AER's development of a national ring-fencing guideline. We welcome the establishment of a robust and nationally consistent framework to ensure metering service providers affiliated with distribution network businesses have equal (and no greater) opportunities to other providers. We would also support clarity around the AER's monitoring and enforcement powers in relation to this guideline.

5. MINIMUM FUNCTIONAL SPECIFICATION

Functions included in a Minimum Functional Specification

The minimum requirements should include sufficient funcitonality to support the majority of common functions that service providers may need to offer the average customer, to avoid the need to replace meters to enable these services. However, if the minimum requirements specify too great a range of functions, Meter Providers will have difficulty differentiating themselves in

the market, and competition will suffer as a result. This may also increase the cost of meters to all customers, even where many customers do not utilise all functions.

ERM Power supports the majority of those functions listed in the Smart Meter Infrastructure Minimum Functional Specification to be used as the basis for a national new and replacement policy for both large and small customer sites.

Those functions that we do not support being minimum requirements in new and replacement meters are as follows:

- S7.6 Load management through a controlled load contactor or relay
- S7.8 Supply capacity control
- S7.18 Interoperability for meters/devices at the application layer
- S7.19 Hardware component interoperability

While we agree that these functions can deliver benefits to consumers, we believe it is too early to specify particular solutions in these areas as minimum requirements for new and replacement meters for all customers. The competitive market is capable of delivering these functions to customers if there is demand for them, until such a time where there is more certainty around their appropriateness in the minimum requirements for all customers.

We note that the merits of S7.18 and S7.19 in particular relate to the AEMC's Open Access and Communication Standards review. ERM Power supports the AEMC's recommendation9 that there should not be a requirement for meters to be interoperable at the application layer, nor through meter hardware components. We believe that if interoperability offers efficiency gains and cost reductions, and meets customer and industry needs, than the market will deliver this at the appropriate time.

We do not support the inclusion of those functions which are indicated as optional functions in the minimum functional specification.

Governance for the Minimum Functional Specification

ERM Power supports the proposed role of AEMO in managing a Minimum Functional Specification through the current framework for metrology procedures.

The Minimum Functional Specification should not determine what services are included in the common market protocol currently being considered by the AEMC under the Open Access and Communication Standards review.

[9] AEMC, *Framework for open access and common communication standards, Report*, March 2014