DRAFT DETERMINATION – PARTICIPANT RESPONSE PACK

METER CHURN PACKAGE

***Participant**: ERM Business Energy*

***Completion Date**: 22 October 2014*

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A. PROPOSED CHANGES TO THE METER CHURN PACKAGE 5

1. Cover Letter

22 October 2014

Jackie Krizmanic
Australian Energy Market Operator
GPO Box 2008
MELBOURNE VIC 3001

Dear Ms Krizmanic

RE: Notice of First Stage Consultation on Meter Churn Package

ERM Business Energy welcomes the opportunity to respond to AEMO's first stage consultation on the proposed Meter Churn Package.

AEMO is proposing to amend the Meter Churn Procedures (the Procedures) to address inconsistencies with Chapter 7 of the National Electricity Rules (NER). The proposed Procedures would prohibit a prospective retailer (who is not classified as FRMP for the relevant market load in MSATS) from requesting the responsible person to perform a meter replacement.

ERM Business Energy does not support this change. In the response that follows, we outline how operational complexities would lead to greater costs to consumers, and would likely hinder the development of the competitive metering services market commended by the COAG Energy Council and the AEMC.

We appreciate that the current inconsistency between the NER and the Procedures must be addressed, and the AER has accepted AEMO's proposal to address it through amendment of the Procedures. However it is our view that there is a strong case for the current industry process to be provided for in the Rules. Given the extensive redrafting of Chapter 7 of the NER expected in response to COAG Energy Council's rule change request on metering contestability, it is prudent to give full consideration to this option. We understand this cannot be affected through this current consultation process, but urge AEMO to reconsider its decision to proceed with their proposal in advance of the AEMC's rule change process, in light of our concerns detailed in the response that follows.

While a rule change is our preferred solution, we also consider that the negative consequences of this proposal could be reduced if the scope was limited to existing type 1-5 meters, and the current process may continue be utilised for existing type 6 meters. That is, where a prospective FRMP intends to replace a type-6 meter with a type 1-5 meter, they may do so prior to completion of the retail transfer. This would resolve the operational issues around tariff application and small multi-site contracts, reduce the need for system changes, and support the policy objective of encouraging small customer uptake of advanced metering. While we note for type 1-5 meter replacement the contractual issues and potential for associated anti-competitive behaviour would remain unresolved, we offer this as an alternative means of addressing the inconsistency by change to the NER, should AEMO be obliged to proceed with a change to the Procedures at this time.

The outcome of this consultation process will determine the need for ERM Business Energy to consider options for amendment to the NER to provide for prospective FRMP meter replacement for all meter types.

If you would like to discuss our response further, please don't hesitate to contact me on the number below.

Yours sincerely,

[signed]

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2. Proposed Changes

- Meter Churn procedure for Financially Responsible Market Participants (New Document)
- SLP Metering Data Provider Services – Section 8 and Section 9
- SLP Metering Provider Services Category B for Metering Installation Types 1, 2, 3, 4, 5 and 6

NOTE: No proposed changes have been populated please refer to mapping documents and change marked procedures. Please complete where necessary

Please include your comments in the 'Participant Comment' column below.

A. Proposed Changes to the Meter Churn Package

Item	Description	Category	Participant Comments
1	PROPOSED/ REQUESTED CHANGES		
1.1	**Effective Date: December 2014**	**Procedure only**	ERM Business Energy opposes the proposed change to the Procedures. Further, if the proposal were to proceed, the proposed effective date of December 2014 would not allow sufficient time for ERM to comply with the proposed Procedures. ***System changes*** ERM would require significant system changes to operate in compliance with the proposed Procedures. In particular, this is required to support customers with a type 6 meter that is replaced with an interval-read meter during the term of the retail contract. ERM operates separate billing systems for customers with accumulation meters and those who have interval meters. Given the material volume of sites where ERM currently replaces a type 6 meter with an interval-read meter (about five meters per week during 2014), ERM could not service these customers across both billing systems. Therefore our interval-capable billing system would need to undergo development to enable it to support accumulation reads, appropriate forecasting

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			measures and the full range of small customer protection requirements. This is a significant change which would need to occur during a period where our development team is already heavily committed. Additionally, in order to effect a smooth transition, the effective should date not fall near January and July, which are peak times for retail contract commencement. We therefore propose an effective date of 1 September 2015. ***Honouring existing contracts*** It is also important to acknowledge that a substantial number of contracts have already been executed that comply with the current Procedures (i.e. require meter replacement prior to contract start date). It is important that the implementation of the proposed Procedures allows retailers to honour these existing contracts, which were entered into in good faith based on the Procedures in place at that time. Renegotiation of these contracts is not a viable option. Not only would this require significant resources, but would also impose on the customer significant additional cost due to the requirement for an additional metering services contract (see discussion on metering service provider contracting below). Transfers of some of these customers have already been generated in the market; however there are also some contracts that do not commence for a number of years. We believe that where contractual arrangements were entered into prior to the determination of the new Procedures, these contracts should be allowed to proceed in compliance with the current Procedures.
1.2	1.1.2 The responsible person can initiate Meter Churn at any time. Where the financially responsible Market Participant is not the responsible person, the financially responsible Market Participant	**Procedure only**	We understand these clauses have been worded to prohibit a prospective FRMP (those who are not classified as FRMP for the relevant market load in MSATS) from requesting the responsible person to replace the meter. Below we outline our concerns relating to the operational implications of the

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	for the market load may request the responsible person perform Meter Churn in line with the B2B Procedures. 1.1.3 This Procedure details the requirements for two additional scenarios that require the financially responsible Market Participant to perform additional actions: a) Type 5 or -6 to a type 1-4 Meter Churn - where the Local Network Service Provider will remain as the responsible person: i. The financially responsible Market Participant may request the responsible person perform Meter Churn in accordance with the B2B Procedures, having first requested and accepted the Local Network Service Provider's offer to be the responsible person. b) Type 5 or -6 to a type 1-4 Meter Churn - where the financially responsible Market Participant intends on becoming the responsible person: i. The financially responsible Market Participant for the market load in MSATS can engage its selected service providers to perform Meter Churn, providing the		proposal, as well as its conflict with the metering competition policy recommended by the COAG Energy Council and the AEMC. ***Metering Service Provision Contracting*** When a retailer wins a site, the proposed Procedures would prohibit the incoming retailer from assigning roles (i.e. itself as RP and its preferred MP/MDP) and replacing the meter until the retail transfer has been completed. This leads to a transitional period of 20 - 40 business days between the transfer completion date and the meter replacement where the new retailer must engage the incumbent retailer's choice of metering service providers. Incumbent metering service providers have a strong incentive to take measures to remain in their roles at a site for the longest duration possible. Common measures include requiring a minimum contract term for each site (generally three months – one year), and pricing short term contracts at a substantial premium. Common termination clauses require payment of the full contract term regardless of early termination. The requirement to enter into an additional short term metering contract with the incumbent service providers would impose substantial additional costs on the consumer. Further, there are costs associated with submitting change requests in the market at this time that would not be incurred if meter replacement could be managed at the time of the retail transfer request. We understand these costs are intended to disincentivise instances of inefficient (or unnecessary) meter churn. However, it is efficient (or necessary) for a meter to be replaced in cases where it enables: ▪ compliance with metering installation type requirements for certain consumption bands as outlined in NER S7.2.3;

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	responsible person has been made aware of the Meter Churn in advance. Following the Meter Churn, the financially responsible Market Participant must become the responsible person in accordance with the MSATS Procedures. 3.1 Initiating Meter Churn 3.1.1 Meter Churn can be initiated by the responsible person at any time. 3.1.2 Meter Churn can be initiated by the financially responsible Market Participant for the relevant market load, as recorded in MSATS, in the following circumstances: a) Where the financially responsible Market Participant does not intend to become the responsible person for the metering installation as a result of the Meter Churn, the financially responsible Market Participant may request the responsible person to perform Meter Churn in accordance with the B2B Procedures; or b) Where the financially responsible Market Participant intends to become the responsible person for the metering installation as a result of the Meter		▪ delivery of the customer's choice of retail tariff or other services; ▪ the RP's choice of metering service providers (e.g. due to difference in cost or quality of services); or ▪ the customer's choice of metering service providers (e.g. due to difference in cost or quality of services). In these cases, the objective of meter replacement is to comply with the NER, reduce costs or improve services – in the best interests of the consumer. ERM is concerned that the proposed Procedures would disincentivise necessary meter churn, and penalise those who proceed with this choice. ***Tariff Application*** Retailers are required to bill customers according to the metering installation (and network tariff) existing at the premises. Where a customer with an existing type 6 meter contracts with a retailer for a tariff that requires a type 1-5 meter, this tariff cannot be applied until a type 1-5 meter is installed at the site. This leads to a transitional period of between 20 and 40 business days where the retailer is unable to apply the tariff that the customer has chosen, but is required to bill based on their existing network tariff. This is confusing for the customer, and may adversely affect the cost of their first bill with their retailer of choice and therefore their satisfaction with that choice. ***Coordinating Multi-Site Retail Contracts*** The tariff application issue described above is magnified in the case of multi-site retail contracts. Without the ability to install the necessary metering prior to the contract start date, not only would the application of the contracted tariff be delayed, but the application of the tariff to each site may occur on different dates as each meter is replaced. This adds complexity to billing the sites (which are often

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	Churn, the financially responsible Market Participant must notify the current responsible person in advance of any alterations to the metering installation or change of service provision being undertaken, including: i. Of the proposed date of the change or alteration; and ii. In accordance with the requirements of the MSATS Procedures.		aggregated into a single bill) and increases the chance of errors. Again, customer confusion and dissatisfaction are highly likely. Under the current Procedures, retailers seek to replace meters (where necessary) for all sites under a multi-site contract prior to the contract start date. This means that from the contract start date, all sites can be billed on the same tariff, and receive the same services. The current Procedures allow these customers to have a smooth and efficient transfer process. ***Managing peak replacement periods*** There is a significant peak in retail contract start date volumes during January and July every year. Where meter replacement is required, the current Procedures allow retailers to request this in the market in advance of the retailer contract start date, so that metering service providers can manage the peak workload efficiently over a period of time preceding January or July. The proposed Procedures will place new time and resourcing pressures on metering service providers, as retailers seek meter replacement as soon as possible following retailer transfer completion. Replacements are therefore likely to occur at the latter end of the 20 to 40 business day transitional period. It is unclear whether the existing metering provision workforce will be sufficient to ensure these service level timeframes can be met during peak periods. Any delays in meter replacement increase the impact of the tariff application issues described above. ***Inconsistency with broader competitive metering policy*** AEMO's proposed Procedure is inconsistent with the current rule change request being progressed by the Australian Energy Market Commission on competition in metering and related services under the direction of the COAG Energy Council. This rule change request aims to empower customers to choose to access new

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			innovative retail tariffs and services by replacing their existing type 6 meter with a smart meter. AEMO's proposed Procedures would have the effect of disincentivising meter upgrades, by imposing new costs on customers seeking to upgrade their meter (predominantly due to the need for an additional metering services contract). The rule change request also aims to increase competition between metering service providers, to place downward pressure on pricing and improve service offerings to the responsible person. In contrast, the proposed Procedures would provide a competitive advantage to incumbent metering service providers who can prohibit a responsible person from exercising their choice, safeguarding their market share from competitors. There are also public benefits associated with upgrading metering installations in the NEM with higher functionality meters, such as improved network management capability. A disincentive to upgrade metering installations would prolong the realisation of these benefits.