CENTURION

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Hobart TAS 7001

Improving User Participation in the Energy Market

Dear Ms Schofield,

Thank you for the opportunity to comment on the Discussion Paper and provide our thoughts on improving end user participation in the national electricity market.

Centurion Metering Technologies is currently seeking accreditation as a Metering Data Agent within the electricity industry with a view to providing value added services that will assist retailers differentiate their product and service offerings to end consumers.

As our main area of activity is in metering and data management, we have restricted our comments to those areas of expertise.

The difficulty in commenting on demand side response mechanisms is that there are few practical instances where this now occurs. Assessment of the effectiveness of one mechanism over another can have no sound basis in analysis. It is not possible to draw meaningful conclusions, such as "small consumers are relatively unresponsive to a change in price"[1], as there is little empirical evidence to draw upon.

Nevertheless, it is our contention that *demand side response* is achievable at all market levels – but that this will only occur when retail tariffs are truly reflective of underlying energy costs.

Retailers play a vital role in *demand side response*. It is fair to say that the structure and operation of the national electricity market is complex - beyond the point of comprehension necessary for the average consumer. The retailer's role is to manage this complexity on behalf of consumers and provide decision points that are more easily comprehensible.

[1] Improving User Participation in the Australian Energy Market, March 2004 – page 12

The obvious mechanism is the availability of variable product structures and price points that are reflective of common usage patterns exhibited by consumers. Businesses and households then have the choice of paying tariffs that match their usage or changing demand to access lower priced options.

But the Discussion Paper raises the important observation that this level of *user participation* is clearly not evident in the market today. Why?

In our opinion the national electricity market has not been de-regulated, so much as it has been *re-regulated*. The current level of user participation is directly reflective of the regulatory framework put in place with the introduction of full retail competition.

The Case for Interval Metering

It is incongruous that a market, which settles on half-hour intervals, in a market pool system with highly volatile prices, is still largely metered at the point of consumption using accumulation meters.

The best information available for retailers to develop alternative product structures is a small set of haphazardly collected consumption values identifying total energy use over a period of several months. Profiling is a poor substitute for clear and accurate information that identifies individual usage. Such a system clearly discriminates against a large number of consumers who bear the cost for electricity they have not used at prices they have not influenced.

Interval metering might well be more expensive in terms of hardware, maintenance and data management systems, but in setting a half-hour market pool the industry dictated the structure of its metering needs. Accordingly, the cost of implementing and maintaining interval metering needs to be accepted and, as necessary, reflected in the final pricing to consumers.

The Standing Committee of Officials (SCO) must also consider that energy trading largely underpins the cost structure of energy products. With ½ hour data available only from selected customers, energy contracts are largely structured in peak and off-peak loads. Interval metering is required across the mass-market in order to allow electricity retailers to trade energy in more sophisticated structures. This in turn will drive more competitive product structures.

Barriers to the Voluntary Use of Interval Meters

The question can be asked – why hasn't the industry embraced interval metering? The common answer is cost. The true answer is a little more complex - the current industry structure does not reward the use of interval meters. Specifically:

- Clause 7.3.6 of the National Electricity Code penalises Retailers by explicitly requiring that they bear all costs associated not only with the provision and installation of meters but also providing metering data to other participants who, by rights, should be paying their fair share for data usage.
- The current regulatory framework allows Distributors to recover meter asset costs through *Distribution Use of System* (DUoS) charges but makes no allowance for Retailers who nominate to install non-standard metering. Where a Retailer chooses to install a non-standard meter not only must it bear the cost for the new metering installation, but it also continues to be charged for the metering assets of the Distributor. This is because

Distributors bundle the value of meters into the regulated asset base against which DUoS charges are set.

- The electricity market *settles by difference* between the boundary value of the 1st tier retailer less the known metering values belonging to 2nd tier retailers. The National Electricity Code requires that Meter Data Agents pass metering data to "Code Participants whose NEMMCO account statement relates to energy flowing through that connection point"[2] but does not distinguish between the data needs of each type of market participant. Similarly, NEMMCO's service level requirements stipulate how and when data must be provided but does not recognise the sensitive nature of interval data. Providing interval data to the first tier Retailers gives them an unfair market advantage - allowing them to assess the worth of a competitor's customers while not providing 2nd tier retailers with the same opportunity.

- Incumbent Retailers survive not on competition – but lack of it. They do not want to lose the market share initially provided by the various state governments. Interval metering quickly identifies the profitability of a customer and can lead to 'cherry-picking' by competitors. Consequently, incumbent retailers have tended to resist interval metering to quell competition.

- Second tier retailers understand both the benefits and disadvantages of using interval metering. Understandably, they limit the installation of meters, at their cost, to larger more profitable customers. They also appreciate that a proportion of profiled customers is profitable – but that if these were converted to interval metering and no longer subject to the net system load profile these same customers would be far less profitable – hence there is no incentive to install interval meters.

- Distributors have no stake in demand side management - they are concerned with network efficiency and maximum load capacity and are not exposed to the forces of electricity supply and demand that underpins wholesale price volatility. Consequently, while Distributors are installing interval meters this is not necessarily for the benefit of consumers.

- The National Electricity Code requires that an accredited Meter Provider must install a meter[3]. There are currently 17 accredited Meter Providers, of which three are Transmission Network Operators (ie. Powerlink, Transgrid and SPI), one is independent and the remaining 13 are Distributors or affiliates directly controlled by Distributors. However, much of the work undertaken by Meter Providers is actually performed by third party subcontractors and Distributors add a margin to the base cost of the services provided by the third party subcontractors, which could be avoided if Retailers were able to directly contract the subcontractors themselves.

Centurion notes that the Discussion Paper refers to the anecdotal experience of Western Power in introducing retail tariffs based on the voluntary uptake of interval metering by small consumers[4]. We are not surprised. Consumers do not care about meters and they do not care about metering data – they care about energy and its cost. Such an offering requires consumers to consider and understand the complexity of the market.

The market for metering services is relatively easy to understand. Meter Owners & Meter Providers are concerned with provision of the physical hardware; Meter Data Agents are

[2] National Electricity Code - Section 7.7
[3] National Electricity Code - Schedule 7.4.1
[4] Improving User Participation in the Australian Energy Market, March 2004 – page 12

concerned with accessing the hardware to obtain data; and Retailers contract Meter Data Agents to obtain data for billing and settlements. Consumers buy energy products.

Mandated Rollout of Interval Meters

In light of these and other structural deficiencies introduced to the market with full retail contestability, Centurion sees no alternative than to mandate a targeted rollout of interval meters as proposed in Victoria[5]. We note also that Distributors (notably Energy Australia) are voluntarily imposing a similar mandate.

However, as advised to the Essential Services Commission in our response of 5th April 2004, Centurion's support is conditional upon:

1. The introduction of a new metering category (ie. type), which recognises remote polling of meters at sites with low levels of electricity consumption (what the industry commonly refers to as 'small' sites). This category, like Type 1 – 4 meters, must **not** be subject to the *derogation*[6]. This will enable Retailers to nominate the conversion of a meter over to remote polling, at any time, regardless of the level of electricity consumption, using its preferred metering service providers.
2. Victoria unbundling "metering service charges from the Distribution Use of System (DUoS) charges"[7] as recommended by the Joint Jurisdictional Review of the Metrology Procedures.
3. The cost recovery mechanism proposed by the Essential Services Commission being re-designed to reflect that it will not only be Distributors replacing accumulation meters with interval meters in coming years, but also independent companies such as Centurion.

Distribution & Retail Tariffs

Centurion supports the views of electricity retailers that regulatory restrictions on retail tariffs prevent effective user participation in the market as they result in very little variation in the product offers made to retail customers. Many retailers compete on branding initiatives and short-term incentives rather than price variation designed to facilitate demand side management. Easing tariff restrictions on retailers will stimulate price competition necessitating the need for innovative product structures.

While many customers will initially experience a price 'hump' ultimately market prices will settle such that many consumers can expect to pay comparatively less.

On the other hand, Centurion does not support unregulated distribution tariffs – simply because there can be no effective competition within a Distributor's franchise area. Regulatory price reviews are the only way to ensure fair pricing. By the same token, those activities – such as metering – that do not need to be arbitrarily subject to a franchise must be separated and opened to competition.

Centurion is of the view that the best way for Regulators to achieve the *dual* desired outcomes of demand based tariffs and interval metering is to gradually ease retail tariff restrictions by sector (eg. commercial –v- residential) and tranche.

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[5] Mandatory Rollout of Interval Meters for Electricity Customers, Draft Decision, Essential services Commission - March 2004

[6] National Electricity Code – Section 9.9A.2 states that "The Local Network Service Provider will be the Responsible Person for all type 5, type 6 and type 7 metering installations."

[7] Joint Jurisdictional Review of the Metrology Procedures, Draft Report, December 2003 – page 44

Conclusion

In conclusion, the existing market model discourages investment in interval metering, which is essential to developing a sound mechanism (ie. product and price differentiation) to encourage demand side response.

Centurion encourages the SCO to focus its attention on removing those regulatory and structural barriers that prevent (or act as a significant disincentive) for the voluntary adoption of interval metering in the market place.

Finally, please refer to the attachment where we have directly addressed the 'Issues for Consultation' relevant to Interval Metering as identified in Section 5 of the Discussion Paper. Please note that the attachment contains sensitive and confidential information that must not be published.

Thank you again for the opportunity to submit a response.

Yours sincerely,

Marco Bogaers
Managing Director