AGL Energy Limited
T 02 9921 2999
F 02 9921 2552
agl.com.au
ABN: 74 115 061 375

Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065

Department of Environment, Land, Water and Planning

8 Nicholson Street

Melbourne VIC 3000

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Submitted: stakeholder.consultation@delwp.vic.gov.au

5 Minute Settlement Rule Change – Victorian Amendment Order

AGL Energy (AGL) welcomes the opportunity to comment on the Victorian Government's Five Minute Settlement Rule Change Order in Council (the Order).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. AGL is also a significant retailer of energy, providing energy solutions to over 3.6 million customers accounts throughout eastern Australia. AGL is a customer-focussed business and we endeavour to provide customers with products and services that best meet their diverse wants and needs.

Successful long-term implementation of the five minute trading periods in the NEM and wholesale price management must be supported by appropriate metering and meter data flows. Other fundamental changes to NEM market requirements, such as Demand Side Management, will be predicated on the five minute metering requirements.

With this in mind, the Victorian government should be wary of a decision that have significant detrimental impacts on Victorian customers in this new environment. The Victorian Government's decision should ensure that customers are provided with access to the latest metering technology and services which support metering services innovation. In making the Order in Council, the Victorian Government should avoid locking in any solution, which may seem more cost effective for Distribution Networks in the short term, but which, longer term, leads to poorer metering and associated services (i.e. behind the meter or demand management responses) outcomes for Victorian customers.

At a minimum, the Order in Council (OIC) should be agnostic to the 2020 decision as to whether Victoria adopts metering competition or continues to allow metering services to be provided by the distributors. The proposed decision on the draft OIC appears to favour the second outcome over the first. Hence, the comments AGL offers below is to ensure that there is not an unconscious policy bias either towards current provision of metering services versus metering services competition beyond 2020. We offer specific comments on the below four points in our attachment:

1. Five minute settlement (5MS) capable meters is not opt-in. The Departments Stakeholder Consultation Paper (Consultation paper) states that under the 5MS Rule Change, existing customers may opt-in to five minute settlement. However, this is not correct.
2. The economic rationale is incomplete and needs full consideration of all costs, including the installation of Type 4 5MS capable meters. Until a full cost benefit analysis is completed against

alternative meters, it seems unreasonable to allow for the further extension of outdated meters in the case of replacement meters going forward, particularly where this will increase the distributors asset base and ultimately their control on Victorian metering further into the future.

3. Allowing refurbished meters without certainty on contestability entrenches distributor monopoly.
4. Locking in legacy meters creates barriers for contestability and stifles innovation.

AGL continues to advocate for a consistent national minimum service specification which would promote harmonisation and interoperability of metering infrastructure, reduce meter churn and improve customer and market experiences.

Should you have any questions or comments, please contact Con Hristodoulidis on 03 8633 6646.

Yours sincerely

Elizabeth Molyneux

General Manager Energy Markets Regulation

Attachment

Power of Choice – minimum standards

Because of the Victorian Government's decision to carve Victoria out from Power of Choice (POC) reforms, Victoria does not have metering contestability (for small customers) from December 2017. From 1 December 2018, NEM meters must be capable of collecting five minute data. Without establishing the appropriate basis for going forward, there will be missed opportunities to change older AMI meters with 5MS Type 4 meters from this point onwards. This will create added complexity and poorer customer outcomes, should the Victorian government adopt metering contestability in 2020.

Under POC changes, the Metering Coordinator (MC) must ensure that any new or replacement metering installation in respect of the connection point of a small customer is a type 4 metering installation that meets the minimum services specification.[1] MCs have therefore been set up, and guided by AEMO, to follow procedures relating to the minimum services specifications for type 4 metering.

In 2016, AGL made a submission to DELWP regarding the Victorian Government's transition to metering competition options paper. This paper outlined the reasons the Victorian Minimum Service Specification (VMSS) no longer services the interests of Victorian consumers and examines in greater detail the limitations of the VMSS.[2] The submission notes that the VMSS was originally developed back in 2005, when there was very limited solar PV on household rooftops, no energy storage behind the meter and home energy management was only a concept. Since this time, technology has evolved rapidly resulting in the emergence of new business models to support customer preferences in the uptake of these new products and services.

By allowing refurbishment of older assets, the Victorian Government will essentially be delaying the upgrade timeframe to POC 5MS capable type 4 meters for up to 10 years. This, coupled with a disjointed minimum standard management of Metering Coordinators (i.e. for Type 4 meters, not Type 5 meters), will create unnecessary barriers for the adoption of metering competition in 2020 and lead to delays in better customer outcomes.

Five minute capable meters requirement

The Departments Stakeholder Consultation Paper (Consultation paper) states that under the 5MS Rule Change, existing customers may opt-in to five minute settlement. However, this is not correct. Under the 5MS rule change, from December 2018 ***all*** new and replacement Type 4, 5 and 6 meters must be 5MS capable (both for data and storage).[3] For Type 4A, this is true as of December 2019, and is still not opt-in.

The Australian Energy Market Commission (AEMC) determined that the enduring benefits of the 5MS change will quickly outweigh the one-off and ongoing costs associated to the transition. The Final Determination requires new or replaced type 4 metering installations installed from 1 December 2018 and the commencement date to record and provide five minute data from 1 December 2022 at the latest.[4]

The Commission determined that optional (i.e. opt-in) 5MS for market customers would require AEMO to simultaneously operate both five and 30 minute settlement for different participants. It was determined that

[1] See section 7.8.3 of the National Electricity Rules
[2] See AGL submission - Victorian Government's Transition to Metering Competition Options Paper
[3] See AEMC 5MS info-sheet
[4] See AEMC 5MS final determination

this arrangement would create regional imbalances (i.e. settlement residues) between the money earned by supply-side participants settled on a five-minute basis and the money paid by demand side participants, who could be settled on either a five or 30 minute basis.[5] Inadequate metering capability in the Victorian region could see a detrimental financial imbalance occurring for Victorian participants, with negative customer impacts.

Economic rationale for refurbished meters

The economic rationale is incomplete and only considers the cost of replacing a Vic AMI meter with a new Vic AMI meter or a refurbished one at approximately $150 savings per unit. There has not been a consideration of the costs of replacing a Vic AMI meter with a new Type 4 5MS compliant meter. Given the national rollout of 5MS POC compliant meters would be greater than the Victorian installation or replacement of the AMI meters, it is expected that the capital cost of the new 5MS meters should be lower than that of the AMI meters.

Further, networks have a reverse economic impetus to install refurbished meters, because it increases their asset base at a low cost through the installation of refurbished meters, which would be charged at the capital rate of a new meter.

AGL consider that the Victorian Government should undertake a full cost/benefit analysis of the different options available for the replacement of meters to determine the most appropriate option for consumers and industry moving forward.

Entrenching monopoly

By allowing Victorian distributors to refurbish existing meters, the Victorian government risks entrenching distributor monopoly over metering substantially longer than would be intended by metering competition. This will create potential barriers for the Victorian Government if the decision is to adopt metering competition in 2020, as distributors will own a substantial portion of assets and retailers will then need to cover the cost of meter replacements or attempt to obtain the rights for these newly installed meters going forward.

The market objective should be to install new and replace dated meters with POC compliant meters to ensure that the NEM metering fleet is modern and capable of delivering the same benefits to all customers and that Victorian NEM outcomes and changes are not limited by less capable metering.

As identified by the AEMC, under the National Electricity Amendment (Expanding competition in metering and related services) rule 2015, the substantive parts of which commenced on 1 December 2017, all meters that are newly installed or replaced after this date for small customers will need to be type 4 meters that meet the minimum services specification (with limited exceptions). This policy had several objectives including the modernisation of the national metering fleet to give consumers more opportunities to access a wider range of energy products and services.[6]

The AEMC decision on Five Minute Settlement was clear that any costs associated with the change will quickly outweigh the one-off and ongoing costs of implementation. As distributors will already be required to visit the customer site for new meters, faulty and replacement meters, cost of the site visit is sunk and the

[5] Ibid. p.94
[6] See AEMC 5MS final determination, p.108.

remaining cost is the capital cost of the meter. AGL believe any difference for a new or refurbished meter is not significant enough in context of the change to Five Minute Settlement to justify allowing distributor ownership of semi-compliant meters even further into the future while metering competition is still a legitimate consideration.

There has already been significant investment in metering infrastructure in Victoria. The Department of Economic Development, Jobs, Transport and Resources (DEDJTR) found in 2015 that by the end of 2015, Victoria's electricity consumers will have paid around $2.239 billion in metering charges, including the rollout and connection of smart meters.[7] This figure also includes the ongoing metering data service costs and the costs of the remaining accumulation meters. In 2015, VAGO found that the average residential household has paid around $760 since 2009 in metering fees for a typical single element, single phase Victorian Smart Meter.[8] Given the size and purpose of this investment, a full consideration of available options should be complete to ensure that Victorian customers benefit from the final decision.

Stifling innovation

Smart meters provide data that enable customers to make choices about how much energy they use by allowing them to access accurate real-time information about their electricity consumption. The Department of Treasury and Finance Advance Metering Infrastructure Cost Benefit Analysis completed in 2011 noted that customer benefits would be reliant on customer engagement and Government programs to encourage customer participation.[9]

The benefits generated from innovative tariffs and demand management are dependent on customer behavioural change, but retailers are also developing products and services that leverage off digital metering. AGL is currently trialling or already offering a range of services and products such as electric vehicles, solar and others including:

- **Energy Insights** – AGL trialled 3000 customers from July to October 2017 with digital electricity meters in Victoria, New South Wales, Queensland and South Australia to get greater insights into how energy was being used in their homes by breaking down energy consumption by specific household electrical appliance categories.[10]
- **AGL Mobile App** - Customers can track their energy usage and bills online in half hourly increments, and tap into the full functionality of tools such as My AGL IQ and the AGL App, allowing them to set up usage alerts to help them control their energy usage and bills
- **AGL's Virtual Power Plant (VPP)** - Will enable AGL to provide orchestration services to customers.

Conclusion

When the Victorian Government commenced the AMI rollout, innovation was sighted as a key reason to pursue this option. DELWP must also consider that technology has developed rapidly over the last decade, the cost of delivery of smart meters and smart meter solutions has dropped significantly, and retailers and Government are talking more about demand-response opportunities. Given this, and the AEMC's position

[7] See Victorian Auditor-General's Office– Realising the benefits of smart meters 2015
[8] Ibid
[9] See Department of Treasury and Finance cost benefit analysis – p.67
[10] See AGL Energy Insights media release

regarding aging meter fleets, it does not seem reasonable to lock in 17,500+ Type 5 meters per year that are inconsistent with Power of Choice minimum standards.

AGL strongly suggests that the Victorian Distribution Networks be required to meet the substantive metering requirements of the NEM Five Minute Settlement Rule by installing compliant meters from 1 December 2018.