



National Smart Metering Program - Policy Issues Consultation Consumer Views

On behalf of participants of the National Consumer Roundtable on Energy (the Roundtable) listed as signatories below, we write regarding the National Smart Metering Program - Policy Issues Consultation

Consumers have an overarching concern regarding the progress of the smart meter project as the costs continue to increase and the benefits to consumers are increasingly ill-defined. To ensure that consumers ultimately benefit from a roll-out, we recommend that the cost impacts of any additional functionality and/or new policy directions are carefully considered and that the Ministerial Council on Energy (MCE) revisits its policy objectives for smart meters and clearly communicates what it believes smart meters will deliver.

Issues of contestability, access to key features/functions of smart meters that will directly and significantly impact on consumers and the overall reduction in responsibility and accountability for network management, retail services and importantly customer care are of significant concern. These issues must be addressed to ensure that the benefits of the smart meter project flow to consumers. Currently we are witnessing an erosion of the policy intent as outlined in the MCE policy decision of June 2008, with businesses gathering potential benefits and 'gold-plating' systems, while consumers meet all of the costs and experience a significant reduction and delay in benefits and a diminution of consumer protections.

We have prepared a response to the policy issues raised by the National Stakeholder Steering Committee (NSSC), including our key concerns and recommendations, these are highlighted below with full discussion following.

Key concerns

Scope creep, with increased gold plating by distribution businesses

Increased costs for consumers

Reduced and delayed benefits for consumers

Increased consumer detriment

Reduced consumer protections

Implications of contestability for costs, benefits, functionality, applications

Recommendations

Ministerial review and clear articulation of smart meter policy objectives
Distributor exclusivity for mandated, post mandate and discretionary roll outs of smart meters
Clear articulation of the benefits to consumers of smart meters
Retailer access to load control via the Home Area Network only and subject to certainty of network integrity (security and reliability) and consumer protection
Increased consumer protections in the National Energy Customer Framework in relation to Direct Load Control functions
Clearly defined responsibility and accountability guidelines for efficient market operation

1 Background

We are witnessing an extraordinary example of ‘scope creep’. The Council of Australian Governments (COAG)¹ in 2006 committed to a “roll out of ‘smart’ electricity meters from 2007 to allow the introduction of time of day pricing and to allow users to better manage their demand for peak power **only where benefits outweigh costs for residential users** and in accordance with an implementation plan that has regard to costs and benefits and takes account of different market circumstances in each State and Territory”.

Developments since then have seen the proposed functionality of meters extend beyond ‘metering’ ie the measurement of energy consumption and subsequent communication of that data, to a range of switching, load management and ‘data capture’ capabilities. The idea of a ‘meter’ has changed over time such that it is now possible to contemplate a ‘meter’ split into several separate component parts and metering ‘infrastructure’ similarly divided into components, any of which might be ‘provided’ by any one or more parties. The range of ‘services’ enabled by the available and potential functionality has likewise grown. Significantly there is interest in access to these functionalities from parties other than the ‘provider’ for purposes other than ‘metering’.

The cost benefit analysis carried out under the auspices of the MCE subjected potential smart meter ‘functionalities’ to review. It was widely acknowledged at the time that although thorough, this study was undermined by inadequate factual material regarding meters, communications technologies and consumer behaviour amongst other significant factors. For some jurisdictions the cost benefit analysis produced only a marginal case for a roll-out. Assumptions regarding the costs of a roll-out have been tested by recent developments in Victoria where the actual costs will be substantially higher than estimated in the cost benefit analysis.

More recently there has been a move to link the smart meter project with the amorphous but tantalising “smart grids” project (refer, for example, to the comments by Energy Networks Association in response to an earlier version of the consultation paper). The promise of smart grids, through more intelligent management of electricity distribution networks, is the promise raised initially by smart meters and dashed since by the cost benefit study, finalisation of the minimum functional specification, the results of pilots and trials and the reality of a roll-out. Further, in terms of consumer empowerment, reduction in peak demand and reduction in greenhouse gas emissions, it seems that we need smart grids for these outcomes, smart meters won’t do. It is noteworthy that whereas smart meters promised to minimise (reduce and/or

¹ See Appendix 1 and 2

delay) network augmentation, the deployment of smart grids requires significant increased investments.

The policy issues currently the subject of consultation under the National Smart Meter Program (NSMP) NSSC can be summarised as below. Participants of the Roundtable are working through the NSMP towards a better understanding of these issues and options for resolution, however we have provided consumer views on these issues, as agreed by the signatories to this submission, below.

2. Exclusivity versus contestability

Consumers unequivocally maintain that distributors must retain exclusivity for Smart Meter Infrastructure (SMI) and Smart Meter Infrastructure Services (SMIS) throughout the mandated rollout period, post mandate and in discretionary rollouts. Authorised third party access to these may be allowed, however only through Function 16 and on the basis of discussion outlined below. The regulatory frameworks governing metering infrastructure and services should be amended to reflect that this is the 'default' position.

Distributor exclusivity specifically serves to reduce complexity and mitigate risk created through delineated responsibility. Importantly however, it will serve to ensure that consumers are afforded the protections necessary in an increasingly competitive market and where costs to consumers also continue to increase. In addition, national minimum functionality requirements must be met by distributors in both mandatory and discretionary rollouts, with cost recovery applying only for minimum functionality requirements and to areas where a rollout is mandated.

The decision of the MCE² to proceed with a mandated rollout was to access the benefits of savings made on a mass scale universal roll-out of small meters with shared minimum functionality requirements. These benefits will be eroded in a contestable market where meter replacements are done in a less co-ordinated manner. Further, any dilution of responsibility through contestability for SMI and SMIS will increase costs to consumers. In Victoria, household costs per annum will increase by an average of \$53 in the first year, these costs continue to increase over the period of the rollout. Should the retailers provide a similar service on an ad hoc basis, the costs to consumers for smart meters will be significantly higher as it creates lack-of-scale disadvantages to consumers and increases network inefficiencies.

The implications of introducing contestability into the provision of SMI and SMIS are uncertain, however increased access to services by retailers will continue to dilute the benefits and increase costs to consumers.

In reference to the Competition Principles Agreement, on this occasion, the restriction of contestability will serve to benefit the community as a whole (outweighing the potential costs that will continue to accrue to consumers). Specifically, the objectives of the legislation and the MCE decision to pursue a rollout, on the basis of aggregating demand management and climate change benefits can only be achieved by restricting competition in this instance.

Consumer protection must be foremost in any type of rollout, mandated, post-mandate and discretionary as inherently, market failure risks will be specific to consumer impacts based upon the potential complexity in the market, use of smart meter functionality, reduced consumer

² See Appendix 1

protections and the significant costs facing consumers. Specifically, regulatory and operational arrangements need to be designed with core protections for consumers front of mind.

3. Access to ‘switching’ services

With regard to the question of whether parties other than distributors should, at any time, have direct access to load management functions we are of the view that subject to the prioritisation of consumer protections and network integrity (security and reliability), authorised third parties may be allowed access, but only through the home area network ie Function 16. Importantly however, any authorised third parties must be prohibited direct access to load management functionality including remote connect and disconnect and we specifically, strongly, disagree with any proposal that retailers may have access to the supply capacity control functionality.

Technological capabilities alone should not dictate electricity products and services available to consumers in the future. The MCE should have regard to the NSMP objectives and ensure that smart meters deliver the societal benefits estimated by the National cost-benefit analysis. The national regulatory framework must reflect the public policy objectives when stipulating who can access load management tools and the parameters for how these functionalities can be operationalised.

Supply capacity control and load management via the meter are system management tools and only distributors should be able to load restrict households in order to manage demand on their system for the purpose of ensuring security of supply, it would be entirely inappropriate to use this function for credit control purposes as proposed by retail businesses. Specifically, in various forums over the life of the smart metering project and the NSMP (including the NSSC, the Business Requirements working group and the Regulation working group) consumer advocates have made **unambiguously clear their absolute opposition to the use of supply capacity control as a credit control mechanism.**

Further, it is essential that the National Energy Customer Framework (NECF) effectively and expressly prohibits the use of smart meter functionality for supply capacity control and load limiting and that this can only be used by the distribution businesses for the purpose of system management.

We do however accept that retail businesses should have access to load control via the Home Area Network (HAN) in order to develop new retail products that utilise the direct load control (DLC) functionality of particular appliances. Still, the NECF must detail the framework within which DLC may operate. To ensure that DLC product offerings will eventuate into incentive based contracts (instead of punitive arrangements), the NECF should stipulate maximum thresholds for duration, frequency and number of appliances. DLC should be a tool to reduce peak demand, not a tool for retailers to limit overall supply to households.

4. Responsibility, risk and liability

We regard SMI and SMIS as ‘significant’ infrastructure as contemplated by the Competition Principles Agreement and it is essential that the potential benefits of SMI and SMIS are realised within a clearly defined scope, at least cost and for maximum benefit to consumers.

Without a clearly defined scope, we are deeply concerned by the potential for all parties, including governments, to avoid responsibility and shift liability resulting from the context of increasing levels of risk. Importantly, the separation of the infrastructure into distinct and

contestably owned and controlled components, and improperly regulated access to functionality will result in significant erosion in rights and protections of the demand side of the market.

Signatory organisations

Australian Council of Social Service

Consumer Action Law Centre

Consumer Utilities Advocacy Centre

Ethnic Communities Council NSW

Public Interest Advocacy Centre

Queensland Council of Social Service

South Australian Council of Social Service

UnitingCare Wesley Adelaide

Appendix 1

COAG February 2006 Communiqué

“... committing to the progressive national roll out of 'smart' electricity meters from 2007 to allow the introduction of time of day pricing and to allow users to better manage their demand for peak power only where benefits outweigh costs for residential users and in accordance with an implementation plan that has regard to costs and benefits and takes account of different market circumstances in each State and Territory.”

Decision 2.2

Governments will improve the price signals for energy investors and customers by:

committing to the progressive roll out of electricity smart meters to allow the introduction of time of day pricing and to allow users to respond to these prices and reduce demand for peak power;

requesting the MCE to agree on common technical standards for smart meters and implement the roll out as may be practicable from 2007 in accordance with an implementation plan that has regard to costs and benefits and takes account of different market circumstances in each State and Territory; and

implementing a comprehensive and enhanced MCE work program, from 2006, to establish effective demand-side response mechanisms in the electricity market, including network owner incentives, effectively valuing demand-side responses, regulation and pricing of distributed and embedded generation, and end user education.

COAG April 2007 Communiqué

COAG endorsed a staged approach for the national mandated roll out of electricity smart meters to areas where benefits outweigh costs, as indicated by the results of the cost-benefit analysis which will be completed by the end of 2007.

These reforms will improve energy supply reliability, enable consumers to manage better their energy use and greenhouse gas emissions and help maintain Australia's relatively low energy prices.

MCE Decision Paper June 2008

This paper reported MCE concern such that “insufficient interoperability between different meters, communication infrastructures and metering management systems may introduce further market power risks or reduce competition in metering”

Appendix 2

COAG NATIONAL REFORM AGENDA COMPETITION REFORM APRIL 2007

SMART METERS

In February 2006 COAG committed to the progressive national roll out of 'smart' electricity meters from 2007 to allow the introduction of time of day pricing and to allow users to better manage their demand for peak power only where benefits outweigh costs for residential users and in accordance with an implementation plan that has regard to costs and benefits and takes account of different market circumstances in each State and Territory.

Building on that commitment, COAG has now agreed to an implementation strategy to facilitate a national smart meter roll out. COAG noted that the economic benefits are maximised, and the costs of installation are minimised, if a smart meters roll-out is large in scale and based on a consistent national framework and functionality.

MCE was tasked to develop the details and provided an initial report on a smart meter roll out to COAG in November 2006. This report confirmed that a national smart meter roll out provides a platform for a wide range of electricity market benefits, including: improved customer service capability, reduced retailer risks, and network capital and operating cost reductions. The MCE report also presented a methodology for identifying benefits and costs associated with a smart meter roll out and provides the basis for an implementation plan that aligns the benefits and costs to the extent practical and appropriate, in order to align incentives and avoid distortionary impacts.

Smart meters can facilitate significant savings to consumers from informed energy consumption and can also play a role in addressing the challenges of greenhouse gas reductions, where retailers offer time of day pricing. They provide a wider range of energy price choices tailored to consumer usage patterns, and provide tools for consumers to more fully understand and manage their total energy needs to reduce their greenhouse impact.

Based on the recommendations of the MCE, a major cost-benefit assessment is being undertaken to determine optimal smart meter functionalities, the scale of smart meter deployment and a cost-effective installation schedule which takes account of different market circumstances in each state and territory and the circumstances of different groups of consumers.

COAG endorsed a staged approach for the national mandated roll out of electricity smart meters to areas where benefits outweigh costs, as indicated by the results of the cost-benefit analysis which will be completed by the end of 2007:

- By September 2007, MCE will agree to a national minimum functionality for smart meters, including open communication protocols to support competition. Replacement criteria for existing meters will also be agreed to minimise costs of unnecessary replacements.
- By end 2007, MCE will finalise the cost-benefit analysis.
- By March 2008, MCE will also agree to any specific areas where replacement and roll out may be exempt or delayed, on the basis of local factors which are demonstrated to reduce net benefits for consumers, as informed by the results of the cost-benefit analysis.

- By March 2008, MCE will agree necessary changes in the National Electricity Rules to require new and replacement meters to comply with this minimum functionality and enable the national roll out to commence.
- During 2008, MCE will implement the necessary rule changes to mandate the roll out of smart meters, consistent with the outcomes of the cost benefit analysis.
- By end 2008, replacement of existing meters with smart meters will have commenced.

While a smart meters functionality is yet to be determined, COAG noted the MCE's view that smart meters could allow for: two way communications interface; remote reading; remote load control; import and export metering; remote connect/disconnect; outage detection; meter tamper detection; remote time synchronisation; and quality of supply measurement and recording.

MCE will finalise the details of the national framework and implementation plan to optimise the net benefits identified. This plan will include:

- implementation roles and responsibilities;
- facilitation of new time-related tariffs to pass benefits on to consumers; and
- the required changes to the National Electricity Rules and jurisdictional arrangements, including any transitional arrangements.

To support the development of this implementation plan, MCE has formed a smart meter stakeholder working group (SMSWG) with balanced representation from consumers, the electricity industry, regulators and market bodies. This group will advise on stakeholder priorities, technical aspects of the plan and the assessment of costs and benefits.

The MCE will consult with consumers and industry to develop the technical details behind the national minimum functionality.