

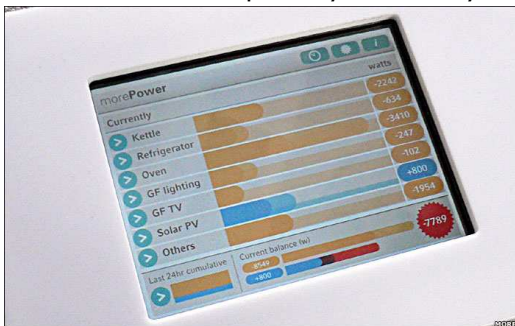


April 2008, edition 16.

Cost benefit analysis of 'Smart' metering

The Ministerial Council of Energy has released its Phase 2 Cost Benefit Analysis (CBA) of Smart Metering and Direct Load Control. The report recommends the inclusion of a home area network (HAN) in the national minimum functionality for smart meters. In an attempt to provide further opportunity for demand response, consultants found the increased benefits of a HAN outweigh the additional costs. The HAN would enable increased consumer participation through the use of in home displays (IHD), or alternatively, enable distributors to intervene through Direct Load Control (DLC). The combination of the two would, according to CRA International consultants working on the CBA, promote the greatest energy efficiency and greenhouse benefits, as opposed to DLC operating without a HAN.

The inclusion of HAN will potentially complement proposed time of use (TOU) tariffs which are said to encourage people to shift consumption from peak to off peak times. By providing consumers the opportunity to access real time information of their electricity use, whether it be through in home displays or direct access via the internet, consumers are more likely to have increased capability to modify their consumption.



The overall benefits to consumers of the inclusion of a HAN are still a concern to consumers groups. The projected take up rates suggest only 7.5% of customers will utilise the functionality to the maximum (by having IHD) though all consumers will be getting a HAN interface and subsequently all consumers will bear the cost.

Image 1: Example in home display¹



Image 2: Example Smart Meter²

For further information, please refer to the section on Smart Meters below for more details.

We welcome feedback on the information provided in *On the Wire*. Further, we encourage you to forward the newsletter throughout your networks. Production of *On the Wire* is funded by the [National Electricity Consumers Advocacy Panel](#). To subscribe to *On the Wire*, please email info@consumeration.org.au with "On the Wire" in the subject line. The next edition of *On the Wire* is scheduled for release in June 2008.

¹ Source: news.bbc.co.uk/2/hi/science/nature/6550361.stm, accessed 2 April 2008

² Source: http://www.torontohydro.com/electricsystem/residential/smart_meter/faq/index.cfm accessed 3 April 2008

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1. Regulatory developments

1.1 Ministerial Council on Energy update

Smart Meters

The [Department of Resources, Energy and Tourism \(DRET\)](#) hosted a consultation forum on the '[Cost Benefit of Smart Metering and Direct Load Control](#)' on the 28 March 2008 in Sydney, providing an opportunity for the consultants working on each workstream of the cost benefit analysis to present an overview to stakeholders. The different workstreams include:

- 1: Overview report and recommendations
- 2: Network Impacts
- 3: Retailer Impacts
- 4: Consumer Impacts
- 5: Economic Impacts
- 6: Transitional Implementation costs and their allocation.

The findings of the cost benefit analysis suggest there is an overall case of positive net benefits of \$179m - \$3.9bn nationally for a distributor led rollout, whilst other scenarios have a less positive case. Primarily the bulk of costs associated with a rollout are in the meters themselves and in the installation, with the benefits accrued through business efficiencies (predominantly avoided meter costs).

Across jurisdictions, the net benefits of a distributor led rollout varied, for example there is a positive case for Victoria and an opportunity to further pursue demand response, while at the other end of the scale, the case for the Australian Capital Territory (ACT), is uncertain. While it is possible to get a net positive case for the ACT, as there are no capacity issues in the ACT, there are no real demand response benefits to be captured.

The cost benefit analysis has uncovered some unsettling data in terms of benefits for consumers, as such, if the rollout is to proceed, it must occur with strong consumer protections. In particular, issues for consumer protection that were highlighted by consultants working on the CBA, and strongly supported by consumer groups, include, but are not limited to:

- Hardship policies and other consumer protection and assistance programs (to ensure existing protections are not eroded);
- New mechanisms for identifying households facing financial stress (prior to utilising remote disconnection functionalities);
- Education programs introducing smart meters and innovative tariff structures;
- The ability for consumers to shift between tariff products easily to ensure they are not financially worse off;
- The processes to ensure new tariff structures are passed from network businesses to retailers then to the consumer; and
- Sufficient notice of critical peak events to provide opportunities for a household to respond to the pricing signals of critical peak pricing.

Submissions for Phase 2 are due on the 16th of April.

For more information on the Smart Meter process, please click [here](#).

Gas Bulletin Board

The MCE's Standing Committee of Officials (**SCO**) has released for consultation [amendments to the National Gas Law \(NGL\) and the National Gas Rules \(NGR\)](#) that will empower a gas Bulletin Board.

The Bulletin Board will facilitate trade in natural gas by providing information to all users, with information including:

- Registration process;
- Pipeline production facility and storage facility capacities;
- Daily demand forecasts (aggregated by pipeline); and
- Post day actual deliveries by production facility and pipeline.

The availability of this information will provide for more effective competition in the wholesale gas market, resulting in competitive process and ultimately benefiting consumers.

For more information on the provisions, refer to the [MCE website](#).

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1.2 COAG Announcement

In early March the [COAG working Group on Climate Change and Water](#) announced plans to harmonise State feed-in tariffs for solar and other renewable energy technologies, with plans for an options paper for a nationally consistent approach to feed-in tariffs for COAG by the end of June. Feed-in tariffs provide capability for electricity generated through typically renewable sources, to be fed back into the electricity grid from its source of generation, and for the provider to be paid a tariff.

Currently different states have different approaches, for example:

- *Victoria* – legislation was passed on the 9 August 2007 with retailer feed in tariffs gazetted. The Minister for Energy and Resources has the right to refer feed-in tariff

offers to the Essential Services Commission if the tariffs are deemed to not be fair and reasonable.

- *South Australia* - The scheme is due to commence from 1 July 2008 with the minimum guaranteed tariff set at \$0.44 per unit of electricity (kilowatt-hour, kWh). Essentially retailers will pay the consumer significantly more than the retail price for electricity they feed back to the grid.
- *Queensland* – customers will also be paid 44 cents per kilowatt hour (kWh) for surplus electricity fed into the grid, this compares with general domestic use tariff of 15.45c/kWh (inc GST).

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1.3 National retail and non-economic distribution regulation

National RoLR Scheme

The meeting of the MCE in December 2007 resulted in an agreement to delay the retail legislative package that will transfer regulation of distribution (non-economic) and retail (non-price) functions to the AER and the AEMC until September 2009.

Included in the revised timetable was the agreement that the Retailer of Last Resort (RoLR) scheme should be advanced so as to be introduced with the National Retail Rules. The MCE SCO is engaging a consultant to provide advice on an appropriate national policy framework for a ROLR scheme for energy. The consultant will also prepare a draft MCE direction to the AEMC to carry out a review of the current ROLR arrangements and make recommendations for relevant changes as a basis for a national scheme. The draft direction to the AEMC will include a direction to make recommendations for any Rules (to be included in the National Electricity Rules (NER) and the National Gas Rules (NGR)) required to implement the national ROLR scheme.

The MCE will consider the AEMC advice and draft Rules when deciding what ROLR related Rules to incorporate as part of the initial set of National Retail (and related) Rules expected to be made in the last quarter of 2009.

Timetable

The proposed timetable for the retail legislative package will be as follows (approx.):

- April 2008 – Standing Committee Officials Policy Paper Released
- September 2008 – Release Initial Exposure Draft of Law and Rules
- April 2009 – Release Final Exposure Draft of Law and Rules
- September 2009 – Law and Rules introduced into South Australian Parliament

The SCO paper to be released in April / May will most likely include the following:

Business authorisations

- The national regime for entry requirements into the retail market.

Obligation to Offer Supply

- The obligation to offer energy to a premise at the standard offer rate when there are new occupants.

Hardship

- The implementation of policies such as flexible payment options to prevent disconnection due to inability to pay.

Contractual Model

- The relationship between Distributors, retailers and end users.

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1.4 Australian Energy Market Commission update

Victorian Competition Review - Final Reports

The Australian Energy Market Commission (the **Commission**) published its [First Final Report](#) in its investigation of competition in Victorian energy markets on 19 December 2007. The Commission found competition in the Victorian electricity and gas retail markets to be effective and subsequently has provided advice, in its [Second Final Report](#), for the removal of price regulation in Victoria on the basis of evidence of active participation in the competitive market by Victorian consumers and strong rivalry between energy retailers.

Consumers groups continue to have concerns about the removal of price regulation, in particular regarding whether the Commission's transitional policies will be sufficient to protect consumers. Of particular concern is consumers' access to information and tariff structures. The Commission and retailers both believe that readily available information about market offers will impinge upon competition in the market, with the risk of retailer collusion. This doesn't appear to be the case in the United Kingdom or Norway where competition is enhanced through published tariffs.

Consumer Action and other consumer groups continue to have concerns regarding the AEMC's recommendations and believe the Victorian Government needs to ensure / consider the following:

- The ability of Government to intervene in the market should there be signs of market failure;
- The recent decision by Ofgem (UK regulator) to investigate competition in its energy market in response to increasing consumer and government concerns about retail price volatility;
- The value of an obligation to supply when there is no price attached, combined with the issue of standing offer prices and the potential for price discrimination by retailers;
- The benefits of publishing all offer prices and terms and conditions (both standing offer and market contracts) to ensure true competition and that consumers have access to information from all retailers;
- The guidelines developed by the ESC ensure consumers can undertake comparisons between offers easily; and
- The need for consumer protections to be maintained and enhanced with the deregulation of pricing.

The review of competition in South Australia's gas and electricity markets has also commenced with an [issues paper](#) released on the 14 March 2008.

For more information on the Competition Review process, please click [here](#).

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1.5 Australian Energy Regulator (AER) update

Transmission decisions by the AER

The Australian Energy Regulator (**AER**) has issued its final decision and transmission determination in relation to SP AusNet. The decision provides \$751.38m of investment in SP AusNet's electricity transmission network over the next six years (the 2008 – 2014 regulatory period). The investment is focussed upon addressing the need for replacement and repair of 'ageing assets' in the Victorian transmission network and to maintain reliability and security of supply.

This determination is said to have a decreasing impact on residential consumers' electricity bills over the full period, following an initial annual increase 0.88 percent for the 2008-2009 period, down to 0.07 percent for the 2009-2010 period.

In recognition of the higher than usual cost of debt, AER highlights that this is an increase driven by the current financial markets, specifically the 'sub-prime markets in the U.S.

The AER has also issued a draft decision in relation to \$606m of investment in South Australia's ElectraNet's transmission network over the next five years.

For more information, visit www.aer.gov.au.

NSW Price Distribution Review

Transfer to the AER for the economic regulation of distribution services will commence with the ACT and NSW price determinations in June 2008, with other states to follow. Queensland and South Australia are scheduled for June 2010, Victoria, December 2010 and Tasmania in December 2012.

The proposed regulatory arrangements incorporate:

- the post-tax revenue model
- the roll forward model
- an efficiency benefit sharing scheme
- a service target performance incentive scheme
- cost allocation guidelines.

Written submissions to the proposed guidelines are due on the 14th May 2008.

For more information please visit the [AER website](#).

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2. Consumer advocacy and other information

2.1 Electricity prices up! Affordability down.

Tenzin Bathgate is a senior researcher with the Centre for Credit and Consumer Law, Griffith University

Queensland consumers were promised significant cost savings by the Government with the introduction of full retail competition in the retail electricity sector. How things change in a short time. Any cost savings have been cancelled out. Regulated electricity prices are going up not down in Queensland and hence affordability is an increasing issue for Queensland households. In 2007, the price increased 11.37%. In 2008, a price increase of 7% is being mooted by the regulator – the Queensland Competition Authority (QCA). This increase is based on use of the Benchmark Retail Cost Index (BRCI) which was introduced to coincide with the introduction of full retail competition last year. Previously, changes in electricity prices were generally tied to the CPI.

The BRCI attempts to estimate the actual cost of providing electricity throughout Queensland and takes into account the cost of energy, network costs and retail costs. Many of these costs, particularly network costs, have significantly increased in recent years. And recently the drought has impacted on the cost of energy through reduced generation capacity and increased costs.

Taking into account the 2007 and proposed 2008 price increases Queensland households are potentially facing an 18% increase in electricity prices within the space of two years. The Premier Anna Bligh and the Minister for Mines and Energy Geoff Wilson have both flagged their concern about the proposed 7% increase in electricity prices. They have asked the QCA to scrutinise its draft decision more closely and ensure that it takes into account the impact of the breaking of the drought and the consequent reduction in generation costs.

But what if the rain had not fallen? What arguments would the Government have used to advocate for a lower increase in electricity prices than proposed by the QCA?

The BRCI was introduced by the Government in 2007 in great haste and with minimal consultation with consumers. It is far from clear that the BRCI detailed methodology is best for Queensland consumers. Fortunately, the methodology is currently being reviewed by the QCA as part of the current BRCI calculation procedures and QCA is consulting with stakeholders. The methodology may be improved as a result. But questions will still remain about the whole concept of the using the BRCI to indicate by how much regulated electricity prices should change each year.

What ever happens to the BRCI affordability will remain a major policy issue. This raises the important questions of how the affordability of an essential service will be addressed in the long term if energy and network costs continue to rise and get continually passed on to the consumer. What role should Governments play in relation to pricing of an essential service?

One approach is to have targeted assistance measures. For instance, Queensland has an electricity and gas rebate scheme for pension cardholders, electricity drought relief arrangements and now a home energy emergency assistance scheme. But it is a system that will need strengthening in the future if it is to deal with the gap between affordability and actual prices. For instance, in Victoria concession card holders can obtain a concession if their electricity usage charge is less than the supply charge or if they change their residential

address and reconnect to a new property. In addition, there is a concession scheme which provides once off' assistance for the repair or replacement of an essential appliance that has failed such as a hot water system. Western Australia has an air-conditioning allowance for concession card holders. 'Energywatch' the independent gas and electricity regulator in the United Kingdom has proposed social tariffs as part of an Energy Assistance package to deal with the increasing issue of utilities poverty in that country.

Of course, the Government's policy of having uniform regulated electricity tariffs across the state means that many consumers in those parts of rural and regional Queensland serviced by Ergon Energy pay far less for their electricity than it costs to supply. Post FRC these subsidies are paid for mainly by tax payers. But even for these consumers increased regulated tariffs exacerbate an already difficult affordability problem. Queensland and Ergon in particular already has the highest percentage disconnection rate per 100 customers in the country. Energy efficiency measures which lead to cost-savings can only address part of the problem of affordability.

There is an urgent need for the Government to indicate clearly its long term policies on electricity prices and assistance measures and for a well informed public debate. If these issues are not addressed soon an open enquiry into the costs of energy and how the delivery of an affordable essential service can be maintained would be helpful.

The QCA's current consultation on the BRCI is not enough. The Government needs to show clearly that it has policies which will provide long term solutions to the growing issues of electricity affordability and the need for assistance measures. In South Australia when FRC was first introduced in 2003 the standard residential electricity tariff increased by nearly 25%. Energywatch in the UK has reported that between 2003 and 2006 average electricity bills rose by 60%. In Queensland we are looking at a possible 18% rise over two years. The future is not looking so affordable for Queensland consumers. We need solutions now to dealing with affordability.

2.2 The demand side of the national energy market

Glyn Mather is a National Energy Market Advocate with the Total Environment Centre

Total Environment Centre (**TEC**) has been re-writing the National Electricity Rules to ensure that energy efficiency and demand reductions are the priority for our power grid, instead of more wasteful consumption and more polluting, fossil fuel power. Our Rule Change Package is now with the Australian Energy Market Commission (**AEMC**), challenging the NEM to get serious about the so-called 'efficiency' of the monopoly transmission operators.

Among the Rule changes that TEC is seeking are: the requirement for networks (the 'poles and wires' companies) to investigate demand management (DM) alternatives and implement them if cost-effective before building new infrastructure; the requirement for the Australian Energy Regulator (**AER**) to develop a demand management incentive for transmission networks; and the requirement for the National Energy Market Management Company to implement a market for the sale and purchase of demand management services.

The AEMC has set up a public consultation phase and they received around thirty submissions on the Rule package. This is apparently close to a record, with responses polarised between strong supporters of greater energy efficiency and energy companies arguing to keep the polluting, inefficient status quo. The AEMC have stated they will have draft Rule changes ready for comment later in the year and that they are allowing this time to respond to "the

complexity of the issues". Although our proposals specifically refer to changes in the Rules affecting transmission network business, the flow-on to distribution business will apparently also be considered.

By coincidence, the AEMC has also established a Demand Side Participation Review and an associated Reference Group. The aim of the review is to incorporate demand side issues in the market Rules as a counterbalance to the entrenched emphasis on supply. This review initially will be addressing issues raised in other AEMC reviews on transmission arrangements through the prism of enhancing demand side consideration. The TEC rule change proposals will feature in the review. Demand side issues relating to distribution and retail will be considered at a later stage.

After much prodding and persuasion by TEC, other NGOs and energy efficiency companies, the Australian Energy Regulator (AER) is also getting its economic head around DM and has recommended that distribution businesses in NSW have an incentive to increase energy efficiency. The incentive is called the 'D-factor' (D for demand management), currently in operation under State processes. Despite the avalanche of incentives for electricity companies to sell more electricity, the D-factor is a baby step in the right direction. So is the AER's decision to establish a "learning by doing fund" for DM. While it only provides \$2.3 million compared to total distributor expenditure of over \$2 billion per year in NSW, it is a sign of progress. We are hoping similar incentives will be applied to distribution businesses in the other jurisdictions as they come under regulation by the AER.

These developments indicate increased receptivity to calls for a more efficient and sustainable energy system. It seems that the demand side of the electricity equation is finally getting some attention.

2.3 Going private: Electricity in NSW

Mark Byrne is Senior Policy Officer, Energy + Water Consumers' Advocacy Program, at the Public Interest Advocacy Centre

In NSW most of the electricity industry remains in State Government ownership. An attempt to privatise it in 1997 attracted widespread opposition and was dropped by the then Carr Labor Government. Despite going to the 2007 election promising that it had no plans to privatise electricity, within weeks of the election the Iemma Government announced an inquiry into the future of the industry.

The inquiry's main findings, released as the Owen Report in September 2007, were that "there is a need to be prepared for additional investment in baseload from 2013-14" and that "the most efficient means of providing for baseload is to improve the commercial and policy signals used by the private sector when investing in generation capacity". The key recommendation was therefore that the NSW Government "divest itself of all State ownership in both retail and generation."

On 10 December 2007, Premier Iemma announced the Government's intention to privatise the generation and retail sectors of the industry. Under the Government's plan, State-owned electricity assets including the retail businesses of EnergyAustralia, Integral Energy and Country Energy will be sold and the State-owned power stations will be divested via long-term leases. The distribution businesses — the "poles and wires" — will remain in public hands.

The Government also announced that it would extend the role of the Independent Pricing and Regulatory Tribunal in regulating prices from 2010 through to 2013 or until it is satisfied there is sufficient competition in the retail energy market.

Consumer and environmental groups and unions remain unconvinced of the benefits of selling off the industry, arguing that privatising power seldom results in lower prices or better service for consumers. As in other States, the removal of price regulation beyond 2013 creates particular concerns for low-income and other vulnerable consumers who may be exposed to price hikes.

The Government's failure to guarantee that there will be no new coal-fired power station also contradicts its mandate to curb greenhouse emissions and undermines initiatives such as the plan to provide an additional \$60 million for the existing Renewable Energy Development Fund and to establish a new Energy Efficiency Strategy.

The Government's estimates that the plan would result in a windfall gain to the State of about \$10 billion in asset sales and would avoid another \$15 billion in new infrastructure costs have also been widely criticised. The need for a new baseload power station is questionable if energy efficiency initiatives are taken more seriously, especially since new gas-fired power stations and wind farms are already being built without a Government selloff. Moreover, the price the Government obtains for aging coal-fired power stations is likely to be heavily discounted in the current economic climate, particularly in view of uncertainty about the carbon price under the national emissions trading scheme to be introduced in 2010.

In January 2008, Premier Iemma established the Consultative Reference Committee, chaired by former Premier Barrie Unsworth, to "test the impacts" of the privatisation plan. In the Impact Statement submitted to the Government on 7 March 2008, the majority of the Committee found that the plan met the 12 criteria for impact assessment "overall", subject to the implementation of recommendations on the transaction strategy, employment, and consumer and environmental protections.

The Public Interest Advocacy Centre (**PIAC**) pointed out that there is no evidence that the Committee considered each of the 12 criteria for impact assessment, and argued that the Impact Statement therefore cannot be considered as evidence in support of the Government's plan. It also questioned the lack of detail regarding how the Committee arrived at the views presented, and was critical of the lack of detail concerning some of the committee's recommendations presented in the Impact Statement — especially the proposal for a "Telstra-style public float" of some assets, and the creation of retailers of last resort for customers having trouble paying their energy bills.

There were some worthwhile initiatives in the Statement, including increased funding for the emergency payment scheme; an increase in the pensioner rebate from \$112 to \$130 plus future CPI increases, and the urgent adoption of "a comprehensive energy efficiency plan with ambitious targets." Still, PIAC believes that the recommendations regarding consumer and environmental protections — which the Government has not yet committed to adopting — should be implemented regardless of the outcome of the privatisation plan.

While the Government appears set to introduce enabling legislation as soon as possible, the plan will be debated at the NSW State Labor Conference in May. Despite this, the Government has said that it will proceed independent of any motion rejecting the plan at the Conference.

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