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Smart meter rollouts in a policy vacuum

Governments are tasked with the development of public policy. They can outsource the work but it is a lot harder to outsource the responsibility, and responsibility can turn to blame if the people think things have gone wrong.

In late 2009, the Victorian Auditor-General released damning findings on the Victorian Government's mandated Advanced Metering Infrastructure (smart meters) rollout program, including the lack of appropriate governance, inadequate community engagement, a failure to manage potential project risks and a flawed cost-benefit analysis that gave an incomplete picture in relation to overall economic merits as well as consumer impacts.

The [Auditor-General's report](#) explained that the relevant Government department, the Department of Primary Industries, transferred project governance to the Victorian electricity industry in October 2007 through an Industry Steering Committee with an independent chairperson. However, it found that the project warranted 'much stronger departmental governance and central oversight', noting that the Department had engaged with the implementation of the project in only a limited way as an 'observer', resulting in a diminished ability to deal effectively and proactively with risks and issues - significant concerns considering the nature and scale of the market intervention the project poses.

Negative sentiment about the smart meters rollout has also been building in the Victorian media and public, in our view due largely to problems whose underlying causes are the above failures identified by the Auditor-General. Since the report, the Government has undertaken a range of new steps to try to manage problems with the rollout, including establishing new governance arrangements and, most recently, releasing a [new cost-benefit analysis](#) it commissioned which states that the benefits of the program will far outweigh the costs. It remains to be seen whether and if so, when, the public will "come around" to the program.

Meanwhile, in February 2006 the Council of Australian Governments committed to the progressive national rollout of electricity smart meters from 2007, 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.

The Ministerial Council on Energy (MCE) is the body through which the Federal, State and Territory Governments are responsible for undertaking work on the national rollout. This work-stream is called the [National Smart Meter Program](#) (NSMP) and the objective of the program is 'to enable consumers to make more informed choices and better manage their electricity use and greenhouse gas emissions, reduce demand for peak power with potential infrastructure savings, and drive efficiency and innovation in electricity business operations and retail market competition'.

The MCE has established a National Stakeholder Steering Committee (NSSC) to 'lead the development of the technical and operational aspects of the smart metering framework and build on the national Cost Benefit Analysis to inform future MCE decisions'. More specifically, the NSSC's mandate from the MCE is to:

- a) Develop and recommend technical specifications, performance requirements and amendments to functions, based on a sound benefits case.
- b) Develop and recommend standards, including analysis of cost implications.

- c) Propose supporting NER changes.
- d) Develop appropriate supporting technical documentation through standards and/or National Electricity Market (NEM) procedures.
- e) Consider any related decisions arising from Phase 2 of the cost-benefit assessment.

The NSSC is made up of four representatives of electricity distribution businesses, four representatives of electricity retailers and one consumer representative, with an independent chair. The work of running and supporting the NSSC is undertaken not by government officials but by external consultants, PricewaterhouseCoopers. Government officials sit on the NSSC in non-voting and observer roles only. In addition, these officials are all from the Federal Government department with no State Government officials involved.

The NSSC is in turn supported by a number of working groups, also comprising large numbers of industry representatives and only a few consumer representatives. External consultants lead these working groups, including the Regulation working group reviewing certain regulatory arrangements. There is some government representation on these working groups, but where so again largely from the Federal Government with very limited State Government involvement.

The NSSC's work has been progressing at a reasonable pace, but the policy work necessary to provide the context for the NSSC's work, particularly, the appropriate regulatory arrangements including for cost recovery, consumer protection measures and safety standards, are being developed by the MCE and its Standing Committee of Officials, and are lagging behind work on technical and operational matters, such as determining a recommended set of minimum mandated functions for smart meters (see section [1.2 below](#)).

It is hard to see how the NSSC can properly undertake its task without guidance as to the policy and regulatory context for its decisions. It is therefore not completely surprising that early this year, the NSSC went outside its mandate to draft a range of policy principles for consideration by the MCE. A number of the policy principles carry significant cost and other implications for consumers.

The absence of Government departmental policy guidance and the under-representation of consumer interests in the NSMP process seems to be mirroring the experience in Victoria, especially prior to the Auditor-General's investigation. The Federal Department of Resources Energy and Tourism is taking a hands-off approach and increasingly relying on the NSSC to provide input into key policy issues. The relevant State Departments appear even less engaged than the Federal Department. However, consumers still view their State and Territory Governments as responsible for energy policy issues, including the cost of energy services. Ongoing lack of engagement in the NSMP would seem potentially a politically risky move by the jurisdictions.

Our Governments need to heed the experience of Victoria and re-assess the governance arrangements for the NSMP as a matter of priority, in order properly to manage the risks and impacts associated with a project of this scale and complexity. The Standing Committee of Officials to the MCE must be responsible for providing key policy advice to the MCE, not an industry-led committee established to provide advice on technical and operational matters.

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 [Consumer Advocacy Panel](#). To subscribe to *On the Wire*, please email info@consumeraction.org.au with the words "Subscribe to On the Wire" in the subject line. The next edition of *On the Wire* is scheduled for release at the end of November 2010.

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1. Regulatory developments

1.1 Ministerial Council on Energy

National Energy Customer Framework (NECF)

Following the [Ministerial Council on Energy \(MCE\)](#) meeting in June 2010, a [Communiqué](#) was released with an attachment reporting that, in relation to the NECF, Senior Officials had been tasked with "resolving a small number of outstanding issues and implementation arrangements to ensure a strong package is delivered". The Communiqué also reported that a detailed response to stakeholder comments on the draft NECF would be released prior to the introduction of the legislative package into the South Australian Parliament in the Spring 2010 session.

While there is still some time for a detailed response to stakeholder comments to be released prior to the introduction of the legislative package, there has been no report of the resolution of the outstanding issues by Senior Officials.

These outstanding issues were tasked for further work after being raised by consumer representatives at the June MCE meeting, as noted in the last edition of *On the Wire*. They are critically important to determining whether the NECF will be good enough to attract consumer support, given they include issues such as whether there should be a ban on late payment fees; a commitment to a consumer-focused objective; scrapping of shortened collection cycles; a ban on disconnections during heatwaves; limiting of back-bills for undercharging to 6 months; and the introduction of a Wrongful Disconnection Payment.

It is unclear to what extent these issues have been considered, let alone determined, and whether consumers are to receive the protection that is necessary to ensure confident participation in an increasingly complex national energy market.

If work on these issues is not resolved soon, it is possible that Ministers will see the re-emergence of consumer representatives with "sad socket" faces.



Demand Side Participation (DSP)

In July 2010, the MCE provided a response to the Australian Energy Market Commission's (**AEMC**) [Stage 2 Final Report of the Demand Side Participation Review](#), taking into consideration a range of issues, including the following:

- Economic regulation of networks;
- Network Planning Standards and Service Incentives;
- Distribution network planning;
- Wholesale market participation;
- Reliability; and
- Future work program.

In its response, the MCE recognised that DSP represents a major opportunity for 'electricity users' to better manage the cost of their consumption, with the transition of Australia's energy market to a low carbon economy. The MCE acknowledged the 'perception' that the National Energy Market is supply-side focused and that, on the basis of this perception, DSP is under-represented in Australian electricity markets. The MCE stated that it therefore strongly supported a National Electricity Market (**NEM**) regulatory framework that balances the incentives and obligations for supply and demand solutions, encouraging the adoption of the most efficient option. This includes strong institutional arrangements to ensure that the relevant frameworks are effectively applied.

The MCE also supported the AEMC undertaking a Stage 3 of the DSP Review on the basis that, to date, the AEMC has only examined impediments to efficient DSP in the current framework with the technology available for the vast majority of customers, as opposed to a framework that incorporates the technology of smart meters and smart grids. On this basis, the MCE supported Stage 3 including a review of the conditions required to facilitate efficient price signals and enhance information availability to support decision-making. In particular, the MCE supported further investigation of the level of incentives and limitations to retailers reflecting efficient price signals in customer tariff structures.

Finally, the MCE supported, through the National Strategy for Energy Efficiency Measure 2.1.1 (which seeks to consider the effectiveness of the electricity market in bringing forward demand-side energy efficiency measures), further assessment of regulatory arrangements for energy efficiency in energy markets (in addition to, but seeking to integrate with the NEM). These might include retailer obligation schemes and an assessment of technical and administrative restrictions and barriers to the efficient operation of the price signal in the market.

The MCE's response to the AEMC Stage 2 Final Report can be found [here](#).

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1.2 Smart meters

National Smart Meter Program

The National Smart Meter Program (**NSMP**) is in the process of finalising the detail around what will be included in the minimum functionality of smart meters, and subsequently how this functionality will be used in the marketplace. The minimum functionality will also be based upon some of the policy guidance provided by the Ministerial Council on Energy (**MCE**).

The combined MCE decisions of [13 Dec 2007](#) and [13 June 2008](#) set out the expected outcomes of smart metering and include:

- Reducing demand for peak power, with consequential infrastructure savings (e.g. network augmentation and generation)
- Driving efficiency and innovation in electricity business operations, including improving price signals for efficient investment and contracting
- Promoting the long term interests of electricity consumers with regard to the price, quality, security and reliability of electricity
- Promoting competition in electricity retail markets
- Enabling consumers (including residential, business, low- and high-volume users) to make informed choices and better manage their energy use and greenhouse gas emissions
- Promoting energy efficiency and greenhouse benefits
- Providing a potential platform for other demand side response measures and avoiding discrimination against technologies, including alternative energy technologies

More specifically, the MCE directed the functionality to include:

- Remotely read interval metering, with the meter capable of daily reads;
- Quality of supply and outage detection to improve consumer supply services;
- Import and export metering to support distributed generation such as solar PV;
- Ability to control connection and disconnection remotely and apply supply capacity limits to manage emergency situations;
- Ability to manage load through a dedicated circuit, to support existing off-peak arrangements; and
- Supporting management functions such as data security, tamper detections, remote configuration, remote upgrade and plug-and play installation.

The Smart Meter functionality that is finally agreed on needs to meet these objectives and minimum functional requirements, and to meet the definition of a Smart Meter which is now defined as "a device complying with Australian Standards which measures and records the production or consumption of electrical energy and also conforms to the minimum functional requirements".

The [process for finalising the minimum functional requirements](#) has included the liaison between meter vendors and energy businesses (an RFI process) to determine the viability and cost of different functional elements, and is relying also on the rollouts of smart meters that have already taken place, for example by Energy Australia in NSW and the Advanced Metering Infrastructure rollout underway in Victoria. A summary of functions developed by the NSMP as of August 2010 are grouped below, by functional use.

1. Metering function	7.1 Measurement and Recording 7.2 Remote Acquisition 7.3 Local Acquisition 7.4 Visible Display and Indicators on Meter 7.5 Meter Clock Synchronisation
2. Customer services functions	7.6 Load Management through a controlled load

	contactor or relay 7.7 Switching of the Supply Contactor (eg remote reconnections and disconnections) 7.8 Supply capacity limiting (normal) 7.9 Home Area Network Interface using Open Standard 7.10 Quality of Supply & other event recording 7.12 Remote Service Checking
3. Network function	7.8 Supply capacity limiting (normal and emergency) 7.10 Quality of Supply & other event recording 7.11 Meter Loss of Supply detection 7.12 Remote Service Checking 7.21 Customer supply monitoring
4. Demand management services (DMS) manage customer demand. These services include obligations under the NEM rules for distributors to defer future capital expenditure. DMS include load control arrangements that exist in each jurisdiction and enable distributors to manage customer loads to meet current design capabilities of the network.	7.6 Load Management through a controlled load contactor or relay 7.8 Supply capacity limiting (normal and emergency) 7.9 Home Area Network Interface using Open Standard
5. Energy management services - At the individual consumer appliance level	7.6 Load Management through a controlled load contactor or relay 7.9 Home Area Network Interface using Open Standard
6. Maintenance functions	7.13 Meter Settings Reconfiguration 7.14 Software Upgrades 7.15 Plug and Play Device commissioning 7.16 Communications and Data Security 7.17 Tamper Detection

There are a number of benefits to defining a baseline functionality, for example, reducing over-all purchasing costs, the prevention of the "rail gauge" problem and ongoing technical scalability, however, with each additional functionality, the cost benefit of the rollout of smart meters changes, as additional functions increase the cost of the meter for consumers. This is problematic if the function itself has no particular or direct benefits for consumers. Of course, any distributor can request additional functions of the meters they wish to purchase, but here the question is which functions should be specified as part of the minimum functionality, meaning their cost is directly passed-through to consumers.

More information about the minimum functionality of smart meters under the national program can be found [here](#).

Victorian Smart Meter consumer protections

Victoria's revised governance arrangements for the Advanced Metering Infrastructure rollout continue. Following recommendations by the Victorian Auditor-General's Office (VAGO), a customer consultative working group, policy working group, and communications infrastructure working group were established. The Advanced Metering Infrastructure industry

steering committee and subordinate working groups continue their work with new or revised work programs.

These are accompanied by the Victorian Essential Services Commission's review of regulatory instruments in light of smart meters, including the Victorian Energy Retail Code. A Final Decision is due later this year.

On 3 September, the Victorian Government also released a new cost-benefit analysis commissioned from Oakley Greenwood, which finds that the benefits of the program will far outweigh the costs. The analysis can be found [here](#).

However, as the rollout in Victoria continues, the absence of a comprehensive communications campaign is noticeable, with only limited individual programs of the five Victorian distributors, the [Victorian Government's website](#) and sporadic media coverage available. Alarming, for many it is increased charges on their energy bills that first alert them, and scare many Victorian consumers who continue to have little understanding of the program or how they can or will need to change their consumption behaviour in the face of a changing tariff landscape. We fear that the continuing absence of education around energy use and consumption will potentially result in a number of consumers experiencing price shock and increasing difficulty in paying for the energy they consume.

More information about the Victorian rollout of smart meters can be found [here](#).

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1.3 National Energy Customer Framework (NECF)

Section [1.1 above](#) sets out concerns in relation to the finalisation of consumer protections under the NECF, with no news on tasks allocated to Senior Officials for resolution.

Meanwhile, jurisdictions including Queensland and New South Wales are commencing public consultation on the impact of the introduction of the new legislation on the frameworks in their respective jurisdictions. Tasmania and Victoria, at this stage, appear likely to be the early adopters, with Victoria assessing the legal frameworks necessary for implementation by 1 July 2011.

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1.4 Australian Energy Regulator (AER)

The AER is busy planning for its future retail functions, through development of guidelines via informal consultation mechanisms. The AER is managing the complex task of bringing together distribution and retail businesses, consumer representatives and jurisdictional ombudsmen from across the national energy market to develop guidelines under the proposed National Energy Customer Framework (**NECF**) laws, in line with its proposed statutory obligations. Guidelines currently under development include:

- Retail Pricing Information;
- Retailer Authorisation;
- Hardship Program Indicators;
- Approach to Compliance – Issues Paper;
- Retail Market Performance Reporting; and
- Approach to Retail Exemptions.

The AER will become increasingly involved in the task of developing itself as a retail as well as upstream regulator once the NECF enters South Australian Parliament as soon as next month,

and is facing considerable pressure to be ready for taking on both Tasmanian and Victorian retail regulation in 2011.

The experience of the jurisdictional regulators in dealing with the complexities of the retail market, needs to be passed to the AER to ensure that consumer confidence in the energy market can be maintained (and increased).

In Victoria there is a commitment by the Victorian Government to maintaining Victoria's current level of consumer protections, regardless of the final content of the NECF, and this will be combined with an environment in which the introduction of smart meters is advanced, specific protections to address smart meters will be in place, complex time of use tariffs will be available, there are ongoing issues with energy marketing and energy prices continue to rise. The AER's ability immediately to undertake its retail regulatory functions will be critically important in Victoria.

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1.5 Australian Energy Market Commission (AEMC)

The AEMC published its [First Draft Report for the ACT effectiveness of retail competition Review](#) on 30 July 2010. The Draft Decision definitively found that competition in the ACT retail electricity market for small electricity customers is not effective.

The AEMC's decision is based upon evidence that there are barriers to entry in the market, with particular reference to the Independent Competition and Regulatory Commission's requirement for a regulated retail price to be calculated on the basis 'of the efficient costs incurred by ActewAGL Retail', the incumbent retailer. This results in a low regulated price, which in turn has deterred potential entrants into the market or an expansion of those with a market presence.

Further, the behaviour of both retailers and customers is not compatible with the behaviour that would typically arise in "an effectively competitive market", for example, the rate of consumer switching in the ACT has been considerably less than what has been observed in other jurisdictions, furthermore, customers appear to be satisfied with the retail services provided to them.

Submissions to the Draft Report closed on 27 August 2010, including a significant push by [retailers](#), [distributors](#) and the local [regulator](#) for de-regulation of retail tariffs as the most effective means to overcome any barrier to effective competition. It is therefore important to note that the appropriate, and indeed the required, process for the AEMC to decide whether to recommend deregulation of retail tariffs is first to determine whether there is effective competition in the market, not the other way around. The danger of deregulating prices in the ACT is that it will likely only result in adverse outcomes for consumers, such as aggressive and predatory marketing practices driving customer switching (to higher than necessary rates), rather than the offering of better deals driving customer switching.

Additional information on the AEMC and other reviews and rule changes can be found [here](#).

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2. Consumer advocacy

Every issue, *On the Wire* includes articles by other consumer and community organisations. We welcome contributions. If you would like to submit an article for the next edition of *On the Wire*, please contact us at info@consumeraction.org.au with "On the Wire" in the subject line.

The following articles are produced by organisations other than Consumer Action Law Centre and do not necessarily represent the views of Consumer Action.

2.1 AER Retail Reporting Frameworks; Mark Henley, Uniting Care Australia energy project

The Australian Energy Regulator is currently developing its thinking about how best to implement the likely roles that it will have responsibility for, once the National Energy Customer Framework (NECF) is legislated. These roles will include a range of reporting functions, including energy hardship program oversight and reporting.

The following is a summary of some of the suggestions made by Uniting Care Australia in their submission responding to an issues paper on "Hardship reporting". A critical question is the purpose for measuring Energy Hardship, and more broadly the reasons for the various reporting functions.

Uniting Care submitted that the critical objective for measuring hardship is to inform policy-making, this being policy-making for government, regulators, industry and community organisations.

Hardship indicators are also needed to monitor affordability and accessibility of energy, with the clear understanding that the energy reform process, of which measuring hardship indicators is part, is predicated on a market that operates in the long-term interests of consumers. Measuring levels of hardship, particularly over time, is crucial for informing policy decisions intent on achieving this national energy objective.

Hardship indicators also need to provide a basis for setting energy affordability and accessibility performance benchmarks, as well as measuring energy hardship program performance and effectiveness.

Approach to Energy Market reporting

Uniting Care proposed a 'babushka doll' (Russian nesting dolls) approach to energy market reporting, including measuring energy hardship, starting with:

- energy market performance reporting, then nesting within this element;
- affordability reporting, then nesting within this element;
- hardship reporting, then nesting within this element;
- hardship program reporting.

Public Policy Context For Energy Hardship Approaches

We suggest that the overarching public policy priority associated with measuring energy hardship is the easing of energy related financial stress for consumers and includes specific elements to reduce energy hardship.

This approach has strong resonance with public health approaches to health issues. A definition of public health is:

Public Health is the organised response by society to protect and promote health, and to prevent illness, injury and disability.

Source: National Public Health Partnership (1998).

Crucial elements of public health approaches include:

- whole population approaches;
- focus on prevention and education approaches as well as treatment for health issues; and
- primary, secondary and tertiary level responses.

Dr David Korn, a Canadian GP who has extensive experience in implementing public health strategies, including removing smallpox in Ghana for the World Health Organisation, developed a model to summarise the use of a public health approach to the contemporary issue of problem gambling.

We have taken his model and modified it as an approach to Energy Hardship. This approach develops the notion of 'babushka dolls', with more severe elements 'nesting' within elements associated with higher affordability.

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