

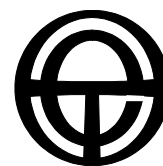
TOTAL ENVIRONMENT CENTRE INC.

LEVEL 4, 78 LIVERPOOL STREET, SYDNEY, NSW 2000

PO BOX A176, SYDNEY SOUTH 1235

Ph 02 9261 3437 Fax 02 9261 3990

Email glyn.mather@tec.org.au



2 November 2007

Adrian Kemp
NERA Economic Consulting
201 Sussex St
Sydney 2000
Email adrian.kemp@nera.com

Dear Mr Kemp,

Re: Smart meters Phase 1

I apologise for the lateness of this letter, and hope that NERA will still be able to take our comments into consideration in Phase 2 of the cost benefit analysis process. Total Environment Centre (TEC) would like to congratulate the consultants for compiling such a mass of data in the Phase 1 process, which will provide a useful source of information on many areas. We would do have some concerns, however, with the conclusions reached in the Overview Report.

In-home displays

TEC's primary concern is about NERA's recommendations regarding in-home displays (IHDs) in relation to functionality, as summarised in the Overview Report (p. vii, Table E.2). The conclusion is that they should not be included in the core functionality. TEC would strongly recommend that, rather than being solidly excluded, IHDs should be placed instead in the category of "requiring further analysis". The reasons presented for excluding them (pp. 102-104) are based on uncertain information. This is inappropriate methodology.

For instance, the presentation by distribution businesses in Sydney as part of the smart meter process (on 16 October 2007) actually gave positive support for their potential for assisting consumers to reduce consumption. At that event the Country Energy representative (David Sheriff) noted that participants in their Home Energy Efficiency Trial (HEET) trials gave positive responses about the benefit of IHDs and it was considered that they had a significant effect on reducing consumption, particularly in peak periods. Country Energy will also be doing more trials that will shed further light. In addition, the Integral Energy representative (Steve Lette) suggested that although the results for participants in their trial with or without IHDs were inconclusive, they had accumulated a very small data set on critical peak reactions by consumers and needed more data to achieve a reliable result on their effectiveness. The Integral Energy trials are referred to on pages 51 and 103, but are clearly an unreliable source at this stage. Regarding the Energy Australia trial (also referred to on p. 51 and p. 103), their representative (Brian Newman) stated that they had not included IHDs – or

time of use pricing – in their pilot at all to date, but had been focusing so far on direct load control and communications systems.

Considering the unreliable nature of the basis for the conclusion to exclude IHDs, we would therefore strongly urge that their costs and benefits require a more stringent analysis before a final recommendation is drawn. This is also important in the light of assumptions that smart meters will lead to reduced consumption via the provision of real-time information. If IHDs are not installed, it is difficult to see how that information is going to be provided to consumers since the default situation will be via the usual three-monthly bill.

Conflicting results

A further issue is the conflicting conclusions regarding elasticity of demand and the potential for greenhouse gas emission reductions in the Phase 1 reports. That is, there seems to be a disjunction between the conclusions drawn on the interaction of these factors in the Phase 1 Stream 5 Report (which includes greenhouse gas emission outcomes) and the Stream 4 Report (consumer impacts). Since greenhouse benefits have been presented by a variety of government sources – including COAG and the SMWG – as one of the major reasons for a national rollout of smart meters, we are concerned that this conflict is resolved adequately. Moreover, a report prepared by Energy Futures Australia for TEC, *Advanced Metering for Energy Supply in Australia*, presents different scenarios again.

In particular, if the final result is inconclusive and it is difficult to predict whether the installation of smart meters alone will promote reduction of consumption, it is critical that support mechanisms to facilitate greenhouse gas emission outcomes are established. This must include optimisation of potential greenhouse benefits from a smart meter rollout, alongside appropriate pricing policies.

The future

We would be pleased to discuss any of these issues further with NERA or any of the other consultants engaged for the process. I also note that I sent NERA a copy of Energy Futures Australia for TEC, *Advanced Metering for Energy Supply in Australia*, via email, and would urge that this report is considered within the Phase 2 process.

It is our understanding that NERA will be holding a workshop for community representatives in Sydney, which is essential to allow for wider community participation in this process than there has been to date. I would be very interested in attending, so could you please notify me of the date and location when they are finalised.

Thank you for the opportunity to comment.

Yours faithfully,

Glyn Mather
NEM Advocate
Total Environment Centre