



6 May 2008

By email: MCEMarketReform@industry.gov.au

Manager, MCE Secretariat
Department of Industry, Tourism and Resources
GPO Box 9839
Canberra ACT 2601

Dear MCE Standing Committee of Officials,

Regulatory Impact Statement for the Cost Benefit Analysis of Options for a National Smart Meter Rollout (Phase Two – Regional and Detailed Analyses)

The Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the Regulatory Impact Statement (**RIS**) for the Cost Benefit Analysis of Options for a National Smart Meter Roll-out (Phase Two – Regional and Detailed Analyses) (**Phase Two CBA**), which was released by the Ministerial Council on Energy's (**MCE**) Standing Committee of Officials (**SCO**) for consultation on 29 February 2007.

Consumer Action has limited our response to those aspects of the Distributor Led Rollout (as recommended by consultants) that will directly impact consumers by providing responses to the specific question as follows.

2. Do stakeholders have a view on the consultant's recommendation to include the HAN in the national minimum functionality?

While we largely support the rationale behind introducing the Home Area Network (**HAN**), we have concerns about the increased costs of the functionality, and the projected, low participation rates. Considering the estimation that only 7.5-15% of consumers will install an in-home display (**IHD**), a HAN enabled technology, we are concerned that the extra costs associated with the HAN will outweigh the benefits for a large number of consumers. On this basis, in line with our response to the previous consultation on the proposed national rollout of smart meters, we recommend an optional 'plug in' HAN functionality, so the large number of consumers who will not use the HAN or an IHD, are not unnecessarily paying for it. We further question the benefits of HAN when applied to public use meters (e.g. public toilets, public / event spaces).

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We also have concerns regarding the potential marketing activity associated with the rollout of the HAN (and the IHD). We are concerned that retailers will use the IHD as both a marketing tool (ie, a 'free' device to encourage a consumer to sign a contract) and a marketing channel (ie, including marketing material on the display itself). We are not convinced that the consultants' reports have considered this issue and particularly the possible consumer detriment associated with increased marketing opportunities. We do acknowledge, however, that if appropriate consumer protections are in place, IHDs can facilitate consumer participation in the demand side market and that they may be necessary to realise the full benefits of behaviour change.

5. Do stakeholders agree with the overall finding of the consultation, reports suggesting that, for a general national case, a smart meter mandate provides higher net benefits than a DLC only scenario?

Consumer Action agrees that, of the four scenarios considered in the consultation, the recommendation of a Distributor Led Rollout of smart meters presents higher net benefits, on the proviso that each of the following is seriously considered:

- We have concerns that retailers, when provided with the opportunity to promote HAN and IHD technology or a 'greater differentiation of their products', will use the increased information available to them to facilitate exclusionary practices, by targeting customers with profitable load profiles, while choosing not to market to or engage with low consumption customers or those with limited capacity to pay;
- We have concerns regarding the potential range of new tariffs that retailers will introduce and emphasise the importance that Time of Use (TOU) and other 'innovative' tariffs remain optional. Consideration should particularly be given to the impact of such tariffs on consumers with flat, inelastic load profiles;
- We have concerns regarding large households who use more energy due to their household composition and appliance mix, and low income and vulnerable consumers who may be worse off under TOU tariffs. We strongly support the introduction of pricing principles which ensure that the first level of energy use, considered as 'essential', is retained on a low, fixed tariff while the 'discretionary' use of those with more elastic profiles can choose to modify their usage or pay higher or varied tariffs.¹ This will provide additional environmental and social benefits as peak usage and subsequent demand can be targeted;
- We remain concerned that there will be minimal, if any, greenhouse gas emission reductions (and as previously mentioned, reduced peak demand), particularly as there is projected low uptake of HAN and IHD combined with the untested assumption of how Australian consumers will alter their behaviour (the assumption upon which the estimated 0.79% greenhouse reduction² is based);

¹ Gavin Dufty, *Electricity Pricing – Delivering Social Justice and Environmental Equity*, in CUAC Expert Forum on Energy Pricing. 2007

² CRA International, *Cost Benefit Analysis of Smart Metering and Direct Load Control – Work Stream 5: Economic impacts on wholesale electricity market and greenhouse gas emission outcomes* p.55

- We strongly believe that any introduction of smart meters and alternate tariff structures need to be accompanied by tighter Minimum Energy Performance Standards (**MEPs**) to ensure that all electrical products meet minimum Australian standards of energy efficiency. This will further enable consumers to actively participate in effective minimisation of their energy use with or without HAN;
- We are concerned that the smart meter technology being recommended has a short shelf life and will be obsolete before the rollout is complete. We strongly emphasise the importance of flexible policy to ensure cost savings continue to be realised through cheaper technology as it becomes available. In particular, it is essential that the current rollout is designed and implemented with consideration of other policy initiatives, in particular policies encourage distributed generation, by ensuring that smart meters can facilitate and communicate with an increasingly distributed network;
- It is essential that business processes associated with smart meters are underpinned by rigorous consumer protections, focusing on hardship policies, the provision of bill smoothing or instalment arrangements, and fair disconnection procedures. The rollout will cause affordability problems due to higher underlying costs and increased bill volatility. We believe that consumer protections will need to be reviewed in line with a rollout and submit that the current Victorian consumer protection framework be used as a best practice starting point;
- A consumer communication campaign must be rolled out in an independent manner to assure consumers that they have the opportunity to remain on/with their current tariff/retailer or to switch should the offer meet their needs. The campaign needs also to address consumer understanding of smart meters, HAN, IHD and their load profile so consumers can assess the cost and behavioural practicalities of switching;
- We have concerns regarding availability of resources required to implement a national rollout of smart meters (ie. electricians) and the drain this will have on an already labour constrained market, combined with the waste generated by the disposal of current accumulation meters (including hazardous waste eg. asbestos) and the significant environmental implications associated with this;
- The MCE objective to promote the long term interests of consumers has been framed by consultants to be achieved through business efficiencies. We question the assumption behind this – that businesses will pass cost savings from these efficiencies onto consumers. To ensure these cost savings are realised, we submit that the National Electricity Rules be amended to facilitate a system of annual payback by distribution businesses (outside of the current 5 year cost allocation period) to enable consumers to more immediately receive the benefits of the rollout; and
- We have considerable concerns regarding the suggestion that in non-retail competitive jurisdictions that TOU tariffs would be ‘compulsorily imposed on all

customers³ and support the consultant's recommendation for measures to address distributional price impacts for vulnerable customers. We again refer to the introduction of pricing principles which would provide guaranteed tariffs for essential energy use, with varying tariff designs for discretionary energy use.

16. *In light of this analysis do stakeholders see any implications for a smart meter roll-out in rural and remote areas in comparison to urban areas?*

Consumer Action believes that, due to limited or no access to natural gas combined with the functionality of the current proposed single element meters, consumers in regional and rural areas will suffer material detriment due to a rollout of smart meters.

Currently rural and remote consumers have dual element meters which enable them to have hot water systems on off-peak rates, with an additional boost function which would be retained on the off-peak rates. The current functionality of the smart meters is for a single element meter which would restrict consumers to single peak rates, increasing household electricity costs significantly.

This has further significant implications for rural and remote communities who would benefit from embedded generation and therefore feed in tariffs, the benefits of which would be limited by the single element meters. Dual or gross element meters would enable consumers to realise the benefits and value of embedded generation through metering total import and export kWh, as opposed to the net import/export capability of single element meters.

These are significant considerations for the MCE when determining implications of smart meters on rural and remote communities and the overall cost associated with network augmentation of both gas and electricity.

22. *What do stakeholders think is the best approach to the safety review?*

Consumer Action supports a review of jurisdictional safety regulations. We are concerned that the current mandatory safety assessment following three months of disconnection may be excluded from business practices prior to reconnection and, as such, believe that a reconnection functionality needs to be supported by regulated safety standards that includes on-premise inspections, in line with current safety requirements.

Considering the consultants' comments that on-premise inspections in line with current safety requirements will substantially reduce the 'benefits of the remote connect/disconnect and import/export metering functions'⁴ we would also encourage a review of costs and benefits to reflect true costs associated with this.

³ Standing Committee of Officials of the Ministerial Council on Energy, Cost-Benefit Analysis of Options for a National Smart Meter Roll-out (Phase Two – Regional and Detailed Analysis) Consultation, Regulatory Impact Statement, April 2008, pg57

⁴Ibid pg 95

23. Do stakeholders have particular issues to be considered by the review of consumer protections arrangements?

Most importantly, any decision in relation to a rollout of smart meters needs to fully consider and include appropriate and strengthened consumer protections, as detailed by NERA Consulting in its report.⁵ This includes full integration of these issues through a regulatory framework, which is drafted concurrently with any other legislation relating to smart meters. Essential consumer protection considerations that are supported by NERA are as follows:

- 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;
- Sufficient notice of critical peak events to provide opportunities for a household to respond to the pricing signals of critical peak pricing;
- Consumer marketing protections against marketing inhome via the IHD; and
- The review of consumer pricing impacts including analysis of pricing principles for non-discretionary use.

We reiterate that consumer protection arrangements must reflect current Victorian regulation which is a benchmark for Australian states and territories in providing consumer protection.

Consumer protections are integral to the successful rollout of smart meters and therefore it is essential these issues are fully considered by the MCE.

24. Do stakeholders have views on different approaches to public education on smart meters or on the funding of such campaigns?

Consumer Action supports the consultant's suggestion for a consumer education program. Consumer awareness and education is an integral factor in the success of the smart meter rollout. Consumers need to understand the impacts of the rollout, including, for example, the replacement of the meter, the scheduling of electrician visits and the impact on houses with asbestos. Importantly, consumers need to understand how the smart meter can be used to inform their energy use (e.g., half hourly intervals, tariff structures and the need to use an IHD to fully understand energy use real time).

The introduction of smart meters and 'innovative' tariffs is a major change in the market and a wide ranging campaign will be required to ensure consumers are aware of their rights under the consumer protection framework as well as the opportunities to maximise the benefits of smart meters.

⁵ NERA Consulting *Cost Benefit Analysis of Smart Metering and Direct Load Control Work Stream 4: Consumer Impacts, Phase 2 Report for the Ministerial Council on Energy Smart Meter Working Group* p. viii

Should you have any questions about this submission, please contact me on 03 9670 5088.

Yours sincerely

CONSUMER ACTION LAW CENTRE

A handwritten signature in black ink that reads "Janine Rayner". The signature is written in a cursive style with a large initial 'J'.

Janine Rayner
Senior Policy Officer