16 April 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,

Cost Benefit Analysis of Smart Metering and Direct Load Control: Phase 2 Reports for the Ministerial Council on Energy's Smart Meter Working Group

The Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the Ministerial Council of Energy's (**MCE**) *Phase Two – Cost Benefit Analysis of Smart Metering and Direct Load Control* (**Phase Two CBA**), which was released for consultation on 29 February 2007.

Objectives of smart metering

Consumer Action believes that key to the question of whether Australia should proceed with a national mandated rollout of Smart Meters and/or Direct Load Control (**DLC**) is whether it can deliver the best price, quality and access to energy for the majority of Australian consumers, or more specifically meet the Council of Australian Government's objective of a rollout.[1]

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.

These objectives are central to our position on smart meters and frame our submission. We maintain that it is essential that these objectives remain the focus of the final decision of the MCE, particularly as, upon evaluation of the overall costs and benefits as presented in the

[1] Council of Australian Governments, *Meeting Communiqué,* 10 February 2007.

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Phase Two CBA reports, it appears that business will reap most of the benefits and consumers will bear the brunt of the costs of a smart meter rollout. It is not clear that business benefits will be passed onto consumers.

The evidence provided by NERA Consulting (**NERA**), who undertook the consumer impacts study, further suggests that neither the objectives of promoting energy efficiency or greenhouse benefits can effectively be argued as a positive case for a national mandated rollout of smart meters.

Consumer benefits from the functionality of smart meters, as described by NERA, will potentially include enhanced levels of customer service, reduced service call out costs, faster resolution and security and reliability of the network.[2] Overall, however, benefits for consumers based upon functionality of the smart meters are quite low and the majority of benefits are the result of business efficiencies, including avoided costs of meter reads and manual disconnections/reconnections. While NERA anticipates that these will flow through to customers in the form of lower tariffs[3], we are concerned that any benefits will only be passed through *subsequent* to consumers bearing the costs of the rollout through paying for the initial installation and capital costs of the meters. Given this, it is our view that business should burden some of the direct costs of the rollout which may be recovered later through cost savings. We do not see why consumers should bear the entire upfront cost of the rollout, particularly when there are many assumptions being made about the extent of the benefits being passed through to customers.

Meter functionality – Home area network

Consumer Action understands that the inclusion of a Home Area Network (**HAN**) in the minimum functionality of a smart meter is designed to potentially increase demand side response and reduced load, by facilitating the use of in home displays (**IHD**) or internet browsing to enable consumers to better understand and manage their usage. However, based upon the elasticity rates provided in NERA's case studies, there is no guarantee that many consumers will be able to shift their load. We are particular concerned about the ability of low income consumers, retirees or families with young children who are at home during the day. This is of particular concern when, although all consumers will receive and pay for the functionality, the assumed uptake of HAN enabled IHD is only 7.5 - 15%. In support of the views of St Vincent de Paul and Consumer Utilities Advocacy Centre, we recommend the approach that an optional 'add on' of HAN enabling technology is considered, resulting in opportunities to reduce the meter cost of the rollout and potentially accommodate the estimated numbers of customers that choose to use this functionality and install IHDs. Additionally, further research should be undertaken about the ability of different classes of consumers to shift load or reduce peak usage in response to signals from an IHD. Such research should investigate what complementary measures might be required to assist consumers better manage their usage (*ie,* so as not to totally rely on price signals).

[2] 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. 111
[3] Ibid p. 111

Time of use and critical peak pricing tariffs

We note that time of use (**TOU**) tariffs are designed to encourage load shifting, though NERA states "there is considerable uncertainty about how much demand would actually be affected by time of use and/or critical peak pricing".[4] This of particular significance as the premise of demand management through introducing smart meters relies on individual's behavioural change.

While the Californian trials have been included in this report, there are still no substantial results from Australian trials regarding responses to tariff structures, or smart meters themselves for that matter, and therefore, to date, there is little evidence that TOU tariffs will facilitate load shifting.

NERA's study demonstrates, that should TOU tariffs be introduced, consumers' limited ability to shift behaviour due to life/time constraints will severely impact the proposition that TOU tariffs will be effective.

NERA estimates for demand response and the take up rates of TOU and critical peak pricing (**CPP**) rates as discussed in the Phase One and Phase Two reports, suggest there will be increased overall power use by residential consumers.[5] The low take up rates will result in increased bills or no positive change (reduction) for many consumers due to their flat or low elasticity profiles which limit their ability to shift their load. These profiles are discussed in Case Study 4: single occupant household, low income (Tracy)[6] and Case study 2: retired couple and low income (Mr & Mrs Harris)[7] and represents consumers who are at home during peak times and by using their heating/cooling and appliances as normal, will receive increased bills under both TOU and CPP.

In addition, we are concerned that consumer fatigue over prolonged periods of extreme weather will reduce the impact of CPP and subsequently demand management, rendering CPP ineffective as a demand management tool.

We are particularly concerned by NERA's observation that in jurisdictions with retail competition for small residential customers, changes in network tariffs may or may not be passed through to customers.[8] This is of increasing concern as this will potentially dilute the tariff signals to consumers, and further distort demand response. It is important that, should TOU/CPP pricing be introduced, there is a policy framework to provide consumer protections, particularly those that ensure electricity remains accessible and affordable to low income and vulnerable consumers. For example, as supported by NERA,[9] consumers should have the voluntary option for TOU/CPP pricing and should not be required to use it should it not benefit them.

[4] 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. 113.
[5] Ibid p.20
[6] Ibid p.106
[7] Ibid p.103
[8] Ibid p.114/115
[9] Ibid p.115

Our concerns about TOU/CPP pricing are further exacerbated in Victoria with the proposal to deregulate retail pricing for consumers and the recommendation by the Australian Energy Market Commission for retailers to not publish all their market offers, and only publish standing offers that retailers themselves have selected. The risk of costs being loaded into the standing offer and the lack of transparency of market offers provides barriers to effective consumer understanding and market participation, on top of the costs associated with smart meters.

Consumer Protections

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 in its report. This includes full integration of these issues through a policy framework, which is drafted concurrently with any other legislation. Essential consumer protection considerations that are strongly supported by NERA[10] 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; and
- Sufficient notice of critical peak events to provide opportunities for a household to respond to the pricing signals of critical peak pricing.

We are concerned that ignoring these will result in a failure to meet the original objectives of the rollout, specifically resulting in negative consumer impacts and increased costs for consumers.

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

Yours sincerely
CONSUMER ACTION LAW CENTRE

Janine Rayner
Senior Policy Officer

[10] 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*