



1 November 2007

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 Options for a National Smart Meter Roll-out
Phase One – National Minimum Functionality
Regulatory Impact Statement**

The Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the Ministerial Council of Energy's (**MCE**) *Phase One – National Minimum Functionality Regulatory Impact Statement (Phase One)*, which was released for consultation on 4 October 2007.

Consultation Process

Consumer Action is aware of the MCE's constrained timetable to undertake the cost-benefit analysis of a national smart meter rollout, and appreciates the opportunity to participate in the consultation process, including attending workshops and providing a written submission on behalf of consumer interests.

We are concerned, however, at the level of documentation that has been presented to consumer groups for review (approximately 1200 pages over six documents) and the time frame allowed to provide constructive feedback which would enable consumers to have confidence in the process. We have been contacted by some consumer representatives, including a consumer representative on the Australian Standards committee developing a standard for direct load control systems, who would like to participate but feels they are unable due to the limited time for consultation. We are concerned that failure to consider consumer expertise may compromise the process with the result that a robust cost-benefit analysis will not be achievable.

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As a result of the limited timeframe to respond, combined with the level of energy market reform activity requiring consumer participation, we are constrained by resources and time, and have therefore provided a submission addressing only those key areas we have reviewed and believe currently need to be addressed.

Background

Consumer Action believes that fair, effective and competitive energy markets deliver the best price, quality and access to energy for the majority of Australian consumers. We strongly support the role of the MCE in pursuing COAG's goal of a national smart meter rollout that is designed:

To allow users to better manage their demand for peak power only where benefits outweigh costs for residential users

We emphasise the importance in retaining this objective as the purpose of the cost benefit analysis throughout the entire process, and we ask the MCE to consider the findings of the consultants' reports with this in mind. We also strongly believe that any national rollout of smart meters should not only ensure demand control capability and indicators of peak load, but include measures that ensure the outcomes are in the public interest.

On this basis, Consumer Action offers qualified support to the MCE's proposal for a minimum functionality requirement for smart meters. Our discussion of the functionalities recommended by consultants for inclusion in a national minimum functionality addresses the need for a strong regulatory framework to be adopted to complement the smart meter rollout. Without robust consumer protections, consumers stand to lose and the costs of addressing these will far outweigh the benefits.

Smart meter functionalities

Remote Connect / Disconnect

Consumer Action continues to be concerned about the proposed functionality which allows remote connection and disconnection. This functionality will make it easier for retailers and distributors to disconnect households from an electricity supply.

We believe that any process which makes disconnection of households a less costly activity may remove incentives for suppliers to maintain compliance with their regulatory obligations. We are particularly concerned about consumers who are unable to pay their bills. We are aware that when manual disconnection occurs, there is often some scope for the person undertaking disconnection to ensure that the household will not suffer severe detriment as a result (for example, we understand some distributors maintain policies not to disconnect very elderly residents). It would be a poor outcome if the remote disconnection functionality resulted in multiple consumers being wrongfully disconnected, disrupting supply of an essential service.

We believe that the introduction of a remote connect/disconnect functionality needs to be accompanied by a strengthening of the regulatory regime relating to disconnection. For example, protections that require site visits by the supplier wishing to disconnect for non-

payment should ensure that hardship customers have been fully identified and all efforts have been made to ensure fair and adequate supply.

We are also concerned about the current mandatory safety assessment following three months of disconnection, prior to reconnection. We believe that a reconnection functionality be supported by regulated safety standards that include on-premise inspection, in line with current safety requirements.

Plug and play device commissioning

We understand that a plug and play device facilitates the installation of an in-home display. While we believe that the instalment of in-home displays has the potential to offer benefits to consumers by assisting them to determine their levels of energy consumption and environmental impact, we are also concerned about risks associated with enabling energy retailers to market and install the devices. We understand the in-home display function has not been recommended by consultants for inclusion in the core functionality, however we are concerned that the devices will be provided to consumers through retailer marketing and their costs will be loaded through amortised bill structures.

We are concerned that retailers will use the display 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 believe, however, that if appropriately regulated, in-home displays can facilitate consumer participation in the demand side market response to time of use (**TOU**) and critical peak pricing (**CPP**) tariffs, and that they may be necessary to realise the full benefits of behaviour change.

We believe that the inclusion of plug and play device commissioning should be accompanied by accountability mechanisms through the regulation of retailers and distributors. We believe that the purpose and use of such in-home displays needs to be addressed at each phase of the cost benefit analysis.

Phase Two objectives

Consumer Action supports MCE's broad objectives for Phase Two. However, we believe that each objective needs to be given equal weighting in the cost benefit analysis.

It is essential that the cost benefit analysis consider social and environmental considerations as well as economic factors. Importantly, we note that currently, the objectives addressed are being defined in favour of the supply side, when the market requires active demand side participation. We are concerned that this result in a decreasing focus upon the MCE's original objectives, specifically consumer impacts and costs.

Time of use and critical peak pricing tariffs

The assumption that smart meters address problems relating to the efficiency of consumption and cross subsidies between consumers with accumulation meters needs to be the focal point of Phase Two.

This is of particular importance when we consider the economic models presented in the Phase One reports, which indicate increased overall power use by residential consumers.¹ While the models may result in reduced usage in peak periods, they are at odds with the stated objective of promoting energy efficiency and greenhouse benefits.

Considering the very limited price demand elasticity of energy consumers, and depending upon the development and deployment of proposed in-home displays, we continue to be concerned that consumers will only respond to tariff peaks (including off peak and critical peaks) in a limited way. In particular, consumers' limited ability to shift behaviour due to life/time constraints will severely impact the proposition of effectiveness of TOU tariffs.

Considering the limited available evidence about how consumers can and will respond to different tariff structures, we believe that a large consumer response trial should be included as part of the cost-benefit analysis. Without such a trial, we believe that consumers will have limited confidence in the final report's findings.

Single element metering

Consumer Action strongly urges the MCE to reconsider its commitment to single element meters as a key component of the proposed smart meters rollout.

It is important that the MCE fully consider both the current and future costs associated with installing single meter elements, including how it will affect the market for load control devices which in turn will influence market development of optimal technology. Importantly, the MCE will need to consider ways to enable the full realisation of the benefits and value of embedded generation through metering total import and export kWh, as opposed to the net import/export. Options for consideration should include a two element meter or single gross meter and for the introduction of feed-in tariffs for embedded generators. These are significant considerations which we believe need to be a core aspect of the Phase Two of the MCE's cost benefit analysis, particularly as these represent significant incentives globally and may encourage improved network security and reliability while reducing greenhouse emissions in the medium to long term.

Direct load control

We note that the MCE is considering the costs and benefits of direct load control as a comparison to a smart meter rollout. We believe that any consideration of direct load control

¹ NERA Consulting *Cost Benefit Analysis of Smart Metering and Direct Load Control Work Stream 4: Consumer Impacts, Phase 1 Report Report for the Ministerial Council on Energy Smart Meter Working Group Table 3 p. 20*

should only consider non-essential appliances such as swimming pool pumps and air conditioners. Consideration of appropriate consumer protections to ensure consumer health and wellbeing will also be required.

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' and 'R'.

Janine Rayner
Senior Policy Officer