

16th April 2008

Manager, MCE Secretariat
Department of Industry, Tourism and Resources,
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Dear Secretariat,

Thank you for the opportunity to respond to the Cost Benefit Analysis of Smart Metering and Direct Load Control.

The Centre for Credit and Consumer Law, Griffith University has the overall objective of promoting the attainment of a fairer, safer and more efficient marketplace for consumers including low income and vulnerable consumers. The Centre is able to respond to the discussions on Smart Meters due to funding received from the National Consumers' Electricity Advocacy Panel.

In our previous submission we made the following points which we still hold to be true.

- The exploration of smart meter technology and roll-out should be seated firmly within the context of other demand-management options including direct load control (DLC). *We therefore welcome the more comprehensive review of the DLC component in the second phase. We note in respect of Queensland that a non-smart meter direct load control rollout is also beneficial from a Cost Benefit Analysis (CBA) perspective which reinforces the importance of this mechanism in Queensland.*
- There is a continuing lack of direct benefits for consumers given the provisional nature of evidence identified thus-far. *This does not appear to have changed.*
- There is a continuing need to identify the impact of smart meters on delivery of an essential service and obligation to supply including remote disconnection in conjunction with sufficient hardship regulations. *There are welcome recommendations in the NERA reports on these matters.*

In respect of the current submission we wish to make the following general points.

- We support Scenario 1 for a Distributor led roll-out based on the evidence outlined in the CBA notwithstanding that the estimated range of identified benefit in monetary terms is extremely large (a range of \$179 million to \$3.9 billion).
- We welcome the addition of five key consumer issues as part of the policy framework of a future rollout of smart meters as outlined in both the Overview and Work Stream 4

Report. These consumer issues reflect the essential nature of electricity delivery and the need for ensuring tariff/DLC benefits for consumers.¹

- We welcome the acknowledgement of jurisdictional differences with regard to the cost-benefits of the roll out of smart meters and that in Queensland there is a case for a DLC roll-out. We also note the overall interest of consumer focus groups in DLC.²
- We support the recommendation for inclusion of Home Area Network (HAN) as part of the minimum functionality requirements for Smart Meters because of the potential positive impact on demand response while noting, as the report does, that there is much more research to be undertaken in this area.³ As the Work Stream 4 Report notes research on the impact of in-home display (IHD) on customers was very mixed.⁴ We therefore support the recommendation of the joint Victorian submission from St Vincent de Paul Society and the Consumer Utilities Advocacy Centre that ‘...as more information (and information based on domestic trials in particular) becomes available regarding the effect of in home displays and demand response it must be included in a revised cost benefit analysis.’ We also support their concerns about the assumptions made in the analysis regarding the take up rates of the TOU/DLC and TOU/ CPP options in relation to Functionality 16. If there are alternatives to the embedded HAN enabling technology we would also welcome that exploration.⁵

As a general point we note that the majority of benefit to consumers from the roll-out of smart meters is indirect to the extent that the overall benefit of smart meter roll-out is encompassed largely by business efficiency gains. These business efficiency gains will be at the initial cost-detriment for consumers as they bear the cost pass-through of rolling out the meters. In contrast demand response benefits are comparatively small for consumers compared with much clearer business efficiency benefits.⁶

Where there is competition there will also be anomalies in the distribution of benefits. As the report points out “Importantly, many of these consumer “benefits” can be equally considered as a “cost” to retailer businesses as lower bills means less revenue for retailers.”⁷ How this will play out for consumers remains to be seen.

¹ NERA Economic Consulting , February 2008, Cost Benefit Analysis of Smart Metering and Direct Load Control, Work Stream 4: Consumer Impacts Phase 2 Consultation Report, viii and p.116 and replicated on p.206 of the NERA Economic Consulting, February 2008, Cost Benefit Analysis of Smart Metering and Direct Load Control, Overview Report for Consultation.

² Work Stream 4 Report, p.25

³ Overview Report, p.6

⁴ Work Stream 4 Report, p.59

⁵ St Vincent de Paul Society (Victoria) and Consumer Utilities Advocacy Centre, April 2008, Submission to the Cost Benefit Analysis of Smart metering and Direct Load Control: Phase 2 Reports for the Ministerial Council on Energy’s Smart Meter Working Group.’

⁶ As the report states: “The majority of the benefits result from avoided meter costs associated with not having to replace the existing meter stock and business efficiency benefits for the distributor.’ Overview Report, xiv; Work Stream 4 Report, p.66 ‘...tariffs are expected to increase initially, before the benefits are realised and passed through to customers. This initial impact is therefore an important consideration in the analysis, particularly for vulnerable customers.’ ; Work Stream 4 Report, p.63. See also that NERA has calculated an est. 0.77 % reduction in peak demand and a 0.03 % reduction in overall annual consumption, Overview Report, p.65.

⁷ Work Stream 4 Report, p.66

We would like to draw the MCE to the attention of vulnerable and disadvantaged customers including rural and regional customers outside the non-contestable south-east corner of Queensland. As the Overview report states the roll-out of smart meters has implications for vulnerable consumers that are of particular concern because of the variation in outcomes due to household characteristics.⁸

Rural and regional consumers

While the CBA notes that ‘...the benefits of a smart meter rollout will be greatest where customers in rural and remote areas are also included, rather than limiting a rollout to urban areas only’⁹ the nature of competition, as the report has also identified, will link competitive tariff offers naturally to areas where there is competition. For instance the Overview Report states that retailers have a stronger incentive to offer these tariffs where they face competition for customers that are currently paying more than the underlying cost to serve them i.e. in urban rather than rural areas.¹⁰ On this basis competitive offers in Queensland will be restricted to the South-East contestable corner.

Other disadvantaged consumers

Business efficiency benefits are not necessarily coincident with consumer benefit due to the social impacts of increased prices in the short term; the possibilities insufficient consumer protections (e.g. remote wrongful disconnection) and the general lack of certainty around how or if cost benefits will be passed onto consumers in the long-term. Finally there is the issue of whether consumers will gain overall in the more nuanced tariff structure. One clear example is whether tariff offers (and DLC products for that matter) will be beneficially offered by retailers or utilised appropriately by consumers. The report highlights that low income and/or stay-at-home customers would appear to be more heavily penalised on TOU tariffs.¹¹ As the report notes whether vulnerable consumers are worse or better off will depend on their individual circumstances and whether these tariff products are applied voluntarily and appropriately.¹² For instance rural and/or elderly may be less likely to change to new tariff product offerings due to product complexity even though they might be better off.¹³

Finally, from a consumer perspective we wish to highlight that many of the findings of the CBA are provisional to the extent that there is a lack of sufficient data and research to quantify outcomes particularly (but not solely) from a consumer perspective. One visible sign of this is frequent use of the word ‘potential’ and ‘may’ in reference to possible outcomes. The word ‘potential’ is mentioned over 100 times in both the Stream 4 and Overview Report. The ultimate risk from a consumer perspective is a significant lack of certainty about actual benefits in the proposed roll-out which includes what tariffs retailers will offer, how consumers will respond

⁸ The Work Stream 4 report points out that ‘Whether a vulnerable household is worse or better off from the introduction of time of use tariffs and/or critical peak prices will depend on their individual circumstances, and whether these tariff products are voluntarily applied.’ Overview Report xxii; Work Stream 4 Report, p.115

⁹ Overview Report, XX

¹⁰ Work Stream 4 Report, p.49

¹¹ Work Stream 4 Report, p.13

¹² Work Stream 4 Report, p.115

¹³ Overview Report, p.116

and how much they will pay.¹⁴ Where there is a lack of certainty there is significant room for consumer detriment.

To this end we support the recommendations of the St Vincent de Paul/Consumer Utilities Advocacy Centre and Western Australia Council of Social Service recommendations that much closer scrutiny be applied to how benefits are equitably distributed and applied to consumers through appropriate mechanisms.¹⁵

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tenzin Bathgate', written in a cursive style.

Tenzin Bathgate
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¹⁴ Examples in Work Stream 4 Report: p.6 Retailers may choose to provide electricity use data to customers that may in turn prompt them to conserve electricity and/or better manage their own electricity demand; p.6 Retailers may choose to provide electricity use data to customers that may in turn prompt them to conserve electricity and/or better manage their own electricity demand; p.9 One important determinant of potential benefits associated with the rollout of SM is ‘...to what extent retailers and/or distributors decide to adopt TOU and CPP structures and take-up rates associated with these tariffs

¹⁵ Western Australian Council of Social Services, April 2007, Submission to the MCE re the cost benefit analysis of smart metering and direct load control: phase 2 reports for the ministerial council on energy’s smart meter working group.