

11 September 2009

Mr Chris Pattas  
General Manager  
Network Regulation South  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

By email: [acrinquiry@acr.gov.au](mailto:acrinquiry@acr.gov.au)

Dear Mr Pattas,

**Submission on AER draft determination Victorian advanced metering infrastructure review 2009-11 AMI budget and charges applications (July 2009)**

The Consumer Utilities Advocacy Centre Ltd (CUAC) is an independent consumer advocacy organisation, established to ensure the interests of Victorian consumers, especially low-income, disadvantaged, rural, regional and indigenous consumers are effectively represented in the policy and regulatory debate on electricity, gas and water.

We appreciate the opportunity to put forward this submission. CUAC notes that the Victorian Advanced Metering Infrastructure (AMI) Program represents a significant development in electricity technology and capacity and provides a means for consumers to identify more affordable uses of electricity in an environment of rapidly increasing costs and charges. It is vital that all consumers, particularly, low income and vulnerable consumers have the opportunity to manage their electricity usage, maximise energy efficiency, and make informed choices on how to save energy.

The benefits anticipated in the Victorian Government's AMI roll-out are, however, dependent on a combination of factors. First and foremost the roll-out must be cost efficient. CUAC considers that there is a need for further clarification regarding the scope and intent of the Victorian Government's Order-in-Council (OIC) in this regard. In particular, the interpretation of whether the OIC constrains the AER in how it is able to determine the Distribution Network Service Providers (DNSP)s' budget and charges applications against cost efficiency exercises which are normally carried out in a distribution price review.

CUAC believes that the principles of transparency and equity should guide the determination and that cost assessment and allocation must be rigorous to ensure that consumers do not pay more

Consumer Utilities Advocacy Centre ACN 100 188 752

for the AMI roll-out than is necessary. Consumers can rightly expect to know what their costs will be, over what period and what benefits they can expect. The AER's role is crucial in this and extends to ensuring that costs savings are passed back to consumers in a timely manner.

CUAC's submission is attached to this letter, with our recommendations summarised in the texted boxes.

We have also included some additional comments and suggestions for the AER's attention. While outside the AER's direct jurisdiction, these issues are important and will impact on the delivery of consumer benefit resulting from the AMI roll-out and should therefore be acknowledged. Key stakeholders in this process need to work together to achieve the best outcomes for Victorians.

We wish you well in your deliberations toward the final determination. If you have any queries regarding our submission please do not hesitate to contact the undersigned on (03) 96397600.



Jo Benvenuti  
Executive Officer



Deanna Foong  
Senior Policy Officer

## CUAC's SUBMISSION

### Interpretation of the OIC

CUAC has a number of concerns about the scope and interpretation of the OIC. CUAC notes that while the definition of AMI technology under the OIC is very broad, the AER has allowed costs for a number of items for the proposed AMI technology which were above AMI minimum specifications. The AER stated that these items were mostly recommended by independent technical experts to enable the Distribution Network Service Providers (DNSPs) to meet the required AMI functionalities. CUAC is concerned that the allowed expenditure for items above the minimum OIC specifications will result in higher costs for consumers. On one hand, the AER appears to be constrained by the OIC as it was unable to undertake an efficient cost review of AMI (as it otherwise would have done in distribution price determinations). Yet, on the other hand, the AER appears to have exercised some discretion in allowing items which exceeded the minimum specifications.

CUAC believes that it is essential that the AER clarify the Victorian Government's intentions regarding the scope of the OIC so that consumers have confidence in the integrity of the process. If the OIC is to be amended, the Victorian Government needs to ensure that there is an adequate stakeholder consultation process in place. CUAC recommends that the AER consult with the Victorian Government regarding its interpretation of the OIC, and review its draft determination so that stakeholders have the assurance that the costs allowed under the draft determination accord with the requirements of the OIC.

#### **Recommendation 1:**

That the AER consult with the Victorian Government regarding its interpretation of the OIC.

#### **Recommendation 2:**

That the AER review its draft determination in relation to the OIC so that stakeholders have the assurance that the costs allowed under the draft determination accord with requirements of the OIC.

### Status of charges under OIC

CUAC notes that the DNSPs' charges set out in the draft determination are purely indicative, have no status under the OIC, and have been provided as a basis for further consultation with stakeholders prior to its final determination by 31 October 2009. In its draft determination, the AER stated that:

The AER notes that the revised Order does not require a draft determination on the DNSPs' charges applications, however this has been combined with the AER's budget determination in order to provide stakeholders with information on potential price impacts

and to facilitate further consultation generally. Accordingly, where it is noted in this section that the AER has determined charges, this has no status under the revised Order.<sup>1</sup>

CUAC commends the AER for enhancing consultation with stakeholders by including in its draft determination, the DNSPs' charges applications so as to provide stakeholders with information on potential price impacts. CUAC is, however, concerned that if as stated above, the AER's determined charges have no status under the OIC, whether the AER is effectively able to regulate and monitor the application of these charges by the DNSPs. CUAC recommends that the AER clarifies whether and how it is able to regulate and monitor determined charges in its final determination. Consumers need to have the assurance that the AER has an open and transparent process in place to regulate and monitor determined charges.

**Recommendation 3:**

That the AER clarify its powers to regulate and monitor determined charges in its final determination.

**Budget and charges**

***Actual expenditure***

According to the draft determination, DNSPs will be required to report actual expenditure incurred against the budgets as approved by the AER. The OIC provides for actual expenditure to be reflected in prices where it is within scope, certified in an audit report, and no more than 120 per cent (for the period 2009 to 2011) or 110 per cent (for 2012 to 2015) of the budgets determined by the AER. Where actual expenditure is outside these ranges, the AER may permit recovery unless it is not prudent to do so.

It is disappointing that the approach adopted in the AMI roll-out as stipulated in the OIC, does not provide an incentive to DNSPs to outperform forecasted expenditure.<sup>2</sup> An incentive based approach to determine cost and charges may potentially lower costs. CUAC strongly recommends that the AER assess applications fairly but at the same time closely scrutinise the applications each year, given that actual expenditure could initially be up to 120 per cent and thereafter 110 per cent of the initial budget, and even outside the ranges if the AER establishes it to be prudent. A less vigilant approach may result in consumers being overcharged.

CUAC appreciates that there may be confidentiality requirements around documents. However, as the AER will be relying on certified audit reports, regulatory accounts and other documents in its assessments of the DNSPs' reported expenditure, these documents should be freely accessible on the AER website so that they can be scrutinised by all stakeholders in the interests of

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<sup>1</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 142.

<sup>2</sup> Advanced Metering Council Order in Council (25 November 2008), s 4.1: For the purposes of but subject to this Order, with respect to Regulated Services: (a) There shall be no incentive based control mechanism applied. Instead there shall be a pass through of the costs of a distributor for Regulated Services.

transparency. CUAC urges the AER to take a narrow view of confidentiality so that documentation relied upon by the AER in making this draft determination, future determinations, or assessments of the DNSPs' reported expenditure are published.

**Recommendation 4:**

That the AER closely scrutinise and review DNSPs' reported actual expenditure incurred against budgets as approved by the AER each year even if they are within 120 per cent (for the period 2009 to 2011) or 110 per cent (for 2012 to 2015) of the budgets determined by the AER.

**Recommendation 5:**

That the AER publish certified audit reports, regulatory accounts and other documents which have been relied upon by the AER in making this draft determination on its website. All audited reports, regulatory accounts and other documents relied upon in the AER's assessment of the DNSPs' actual expenditure and further determinations should also be published.

***'True-up' mechanism***

There is an annual 'true-up' mechanism whereby the AER would review DNSPs' charges to reflect actual costs incurred as against revenue received to ensure revenue neutrality over the AMI roll-out. Paragraph 1.3.2 of the draft determination states that:

The revised Order requires charges for a particular year to be set such that the net present value (NPV) of total costs incurred by the DNSP from 1 January 2009 to the end of that year be equal to the NPV of the total revenue for the same period. Costs and revenues are to be calculated using a combination of actual historical data and forecasts arising out of a DNSP's approved budget.<sup>3</sup>

Consumers must be able to understand the 'true-up' mechanism as well as be able to see the outcome in amended (including reduced) charges. CUAC strongly recommends that the AER provide a process which is open, transparent and unambiguous to all stakeholders. This process should include timeframes for carrying out the 'true-up', the publication of results, as well as information as to when the charges will be amended.

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<sup>3</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 18.

**Recommendation 6:**

That the AER provide a 'true-up' process which is open, transparent and unambiguous to all stakeholders. This process should include timeframes for carrying out the 'true-up', the publication of results, as well as information as to when the charges will be amended.

CUAC notes that the draft determination in itself is a platform to enable negotiations to commence. Thus, DNSPs are able to negotiate with the AER about the charges, provide further information to the AER, and submit revised initial AMI budget applications for the initial budget period 2009-2011. CUAC notes from the AER website that the AER received amended budgets from CitiPower, Powercor, and SP AusNet.. United Energy submitted an amended budget that accords with the AER's draft determination, while Jemena did not submit an amended budget as the draft determination approved Jemena's initial AMI budget application.

CUAC commends the AER for making the revised initial budgets publicly available via their website. Although the draft determination is a platform for negotiations, it is unclear whether any 'negotiations' have occurred and if they occurred, which stakeholder groups participated in them. It appears that the results of these negotiations would only be evident after the final determination. It is CUAC's view that any negotiation process must be open and transparent and that the parties to the negotiation, outcomes and the impact of the negotiations be made known before the final determination. These matters should also be acknowledged in the final determination.

**Recommendation 7:**

In the interest of transparency, that the AER make known the parties to the negotiation, outcomes and the impact of the negotiations before the final determination. That the AER acknowledges these matters in its final determination.

CUAC notes that there is the possibility that the DNSPs' revised initial budgets for the initial budget period 2009-2011 could affect the charges for this period. Consumers and other stakeholders need to understand the possible ramifications for charges, whether those regulated charges have increased (or decreased) and by what magnitude, before the final determination is published on 31 October 2009. To facilitate this, CUAC recommends that the AER publish a summary of the revised initial budget applications immediately to inform stakeholders about the impact of the revised budgets on the charges. CUAC also recommends that the AER consult with all stakeholders on the revised initial budgets so that their views can be taken into account before the final determination is issued.

**Recommendation 8:**

That the AER publish a summary of the revised initial budget applications immediately to inform stakeholders about the impact of the revised initial budgets on the charges.

**Recommendation 9:**

That the AER consult with all stakeholders on the revised initial budgets so that their views can be taken into account before the final determination is issued.

CUAC understands that the AER expects to receive further information from the DNSPs in the coming weeks in relation to their initial applications regarding charges. While the AER has stated that it will endeavour to publish this information as soon as it arrives (subject to any confidentiality claims), CUAC is of the view that this approach is inadequate because it provides no avenue for stakeholders to be consulted and to provide input before the final determination is issued. CUAC notes that these charges may have a major impact on consumers. Therefore, CUAC recommends that the AER consult with all stakeholders upon receiving additional information from the DNSPs on their initial applications. Consultation should occur before the final determination is issued so that stakeholders' views can be taken into account before the final determination is issued.

**Recommendation 10:**

That the AER consult with all stakeholders in the event that additional information is received from the DNSPs on their initial applications regarding charges. Consultation should occur before the final determination is issued so that stakeholders' views can be taken into account before the final determination is issued.

**Specific items in the budget and charges**

DNSPs have submitted a total of \$1.17 billion for the budget period 2009 to 2011. There is some perception that the AER has been overly generous in allowing most costs because Victoria is the testing ground for the national smart meter roll-out. In the draft determination, the AER has mentioned that industry transition costs, such as, representation at industry working groups, committees and decision making forums have been allowed as reasonable costs due to the 'pioneering nature of the Victorian AMI roll-out.'<sup>4</sup> During the assessment of the DNSPs' budget applications and the charges, the AER has referred a few times to the fact that there is a very broad definition of AMI technology within the OIC and consequently, the AER has noted 'that a large number of expenditure activities fall within

<sup>4</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 73-74.

clause 2.1(b)(1)(i).<sup>5</sup> Therefore, the AER has allowed expenditure for the setting up of a new customer call centres to manage customer calls<sup>6</sup> even though current DNSPs' call centres could have been used at a reduced cost. As complaints associated with the AMI roll-out are anticipated to increase, the AER has allowed costs for complaints to the Energy and Water Ombudsman (Victoria) (EWOV).<sup>7</sup> CUAC notes the OIC requirements. However, EWOV is an industry funded ombudsman service and cost recovery for complaints is contrary to the funding basis of the scheme. DNSPs which appropriately manage the AMI roll-out will not incur consumer complaints. Allowing cost recovery for complaints provides no incentive to DNSPs to manage the AMI roll-out efficiently and effectively.

One would have thought that because it is 'pioneering' work and that there is no guarantee that consumers would benefit from the AMI roll-out, costs should be more conservatively allocated. Arguably, consumers should not need to pay for trial and experimental systems which might solely benefit DNSPs. DNSPs benefit substantially (in terms of better asset management/investments, load profiles, security and reliability of supply) from the information gained from the AMI roll-out, particularly for the implementation of smart grid technology (which includes smart meter technology).<sup>8</sup>

### ***Future expenditure***

CUAC is concerned that the DNSPs initial budget and charges applications included significant future expenditure which have yet to be subject to competitive tendering. For example, in the case of Citipower and Powercor, in the section entitled 'Non-contract costs-expenditure incurred test', the draft determination stated that the 'AER understands that a considerable proportion of the costs will be subject to a tender process in the future.'<sup>9</sup>

In relation to Jemena and United Energy, the draft determination stated that:

AAM stated that as at 27 February 2009, 64 per cent (\$72.9 million) of JEN's and UED's meters, communications and WAN modems had not yet been competitively tendered. These

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<sup>5</sup> For example, Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 26, 49.

<sup>6</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 44, 53.

<sup>7</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 62, 103.

<sup>8</sup> May Mauseth Johnston, St Vincent de Paul Society, Customer protections and smart meters, Background paper (August 2009), at 10: The National Cost-benefit analysis found that the vast majority of the business efficiency benefits are driven by distribution network efficiencies. In Victoria, these network benefits comprise 92% to 99% of the total business efficiency benefits. The demand response benefits estimated for Victoria were however relatively modest.

<sup>9</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 37.



costs are for the roll-out of AMI technology in 2011, and AAM indicated that the total of these costs were expected to be tendered by 31 December 2011.<sup>10</sup>

JEN and UED identified costs in their combined budget application that they intend to subject to future competitive tender processes. AAM stated that these costs make up approximately 60 per cent of JEN and UED's combined budget application for 2009–11, and are spread across the seven major expenditure categories for the roll-out. These “future tendered costs” are estimates of the expected outcomes of competitive tender processes, based on tender responses and commercial industry practice. The AER considers that this is a *reasonable* method of estimating these costs which are yet to be incurred by JEN and UED. Furthermore, given the DNSPs' intentions for these costs to be tendered, as stated in the combined budget application, the AER considers it is *likely* that they will be incurred.<sup>11</sup> (Emphasis in italics added)

CUAC believes that the use of the words ‘reasonable’ and ‘likely’ could be construed broadly. Consumers are already paying upfront for the smart meter infrastructure. The AER should be aware that a delay in contracting for AMI technology, and a delay in tendering of IT systems and infrastructure until completion by 31 December 2011,<sup>12</sup> may deny consumer access to reliable data and prevent them from moving to more suitable tariffs. There is also the risk that the delay might result in higher costs for consumers.

The AER must review all expenditure to ensure that unnecessary expenditure is not passed onto consumers. All costs must be subject to robust scrutiny by the AER in future applications from the DNSPs. CUAC therefore recommends that the AER review the competitive tendering process of DNSPs to ensure that their proposed expenditure is appropriate before the final determination is made.

**Recommendation 11:**

That the AER review the competitive tendering process of DNSPs to ensure that their proposed expenditure is appropriate before the final determination is made.

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<sup>10</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 69.

<sup>11</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 62.

<sup>12</sup> AAM stated that 77 per cent (\$64.7 million) of IT systems and infrastructure expenditure had not yet been competitively tendered, but would be by 31 December 2011. It also stated that 1 per cent (\$1.1 million) of IT systems and infrastructure costs was expected to be sourced through non-tendered contracts. See Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 70.

### ***Related party margins***

CUAC notes that Citipower, Powercor, Jemena and United Energy engaged related parties to manage the AMI roll-out. These costs are also not competitively tendered (non-contract costs). The OIC does not permit the AER to undertake an efficient cost review of AMI related party margins and the AER was unable to establish that these costs were not prudent under the OIC tests. The AER, however, highlighted the need to investigate 'related party margins' in the next Victorian distribution price review commencing 2010 (for the period 2011-2015). The draft determination stated that the results may inform its assessment of related party management fees within the DNSPs' second AMI budget period applications (2012-2015).

In CUAC's view, a review of these related party margins should be undertaken sooner rather than later so that consumers can be assured that unreasonable margins are not passed through to them during the initial budget period. In reviewing these related party margins, the AER has to exercise vigilance to ensure that there is no 'double-dipping' involved. There is a risk that each related party may include a profit component to its costs, which could result in additional costs being passed on to consumers. If the AER decides that related party transactions and margins are inappropriate, this must be reflected in the DNSPs' second AMI budget period (2012 to 2015) by a reduction in charges.

It is disappointing that the AER appears to have been constrained by the OIC requirements and as such its decision to defer review of the related party margins until the next Victorian distribution price review. Related party margins should be reviewed before the final determination is issued to ensure that costs are not inappropriately passed on to consumers.

### ***WiMax***

The AER considered that SP AusNet's WiMAX communications solution contrasted to the mesh radio solutions proposed by the other DNSPs. However, the AER was unable to establish that SP AusNet would be using WiMAX to provide communications services beyond AMI functionality. Therefore, it was found to be within scope. CUAC notes that the AER has allowed some expenditure for SP AusNet to use WiMAX, but only for activities which are within the scope of the OIC. CUAC is nevertheless concerned that there is the potential for the large WiMAX bandwidth to support unregulated services which would be outside AMI functionality. Also, it is still not clear whether there are any additional benefits for consumers in adopting WiMAX over the mesh radio system adopted by other DNSPs.

CUAC recommends that the AER review the use of WiMax on an annual basis to prevent 'WiMAX creep' occurring. Consumers should not have to pay for services they do not require which are above the AMI functionality. The AER stated that further information submitted by SP AusNet showed lower ongoing opex costs than the alternative mesh radio solution. The AER also needs to ensure that any demonstrated lower opex cost is passed through to consumers in a timely manner.

**Recommendation 12:**

That the AER review the use of WiMax technology on an annual basis to ensure that the communication services are used only to support activities which are within the AMI functionality.

**Recommendation 13:**

That the AER, as per Recommendation 16, pass through to consumers in a timely manner, any demonstrated lower opex costs from the use of WiMax .

***Costs for compliance with codes***

In relation to Jemena and United Energy, under the heading ‘Outage management system and Geographic information system’, mention is made that the AER has decided that the need to comply with clauses 5.2 and 6.3 of the *Electricity Distribution Code* (ESCV March 2008) is within scope.<sup>13</sup> It is unclear why this expenditure is included as all DNSPs are required to comply with the code as per their licence requirements.

Likewise, the AER has allowed AMI roll-out compensation and claims made under the *Electricity Industry Guideline 11-Voltage variation compensation guideline*, to be within scope. It is unclear why there should be additional costs imposed for DNSPs to comply with this guideline since any costs should have been allowed under previous network price determinations.<sup>14</sup>

CUAC recommends that the AER clarify those components in the relevant electricity codes and guidelines that are additional to compliance requirements under licensing conditions or which have not been allowed for under previous DNSP price determinations.

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<sup>13</sup> Clause 5.2 of the Code states - **Reliability of supply**

A **distributor** must use best endeavours to meet targets required by the **Price Determination** and targets published under clause 5.1 and otherwise meet reasonable **customer** expectations of **reliability of supply**. Clause 6.3 refers to Supply restoration and low reliability payments. See Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 52.

<sup>14</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 54.

**Recommendation 14:**

That the AER clarify those components in the relevant electricity codes and guidelines that are additional to compliance requirements under licensing conditions or which have not been allowed for under previous DNSP price determinations.

**Metering charges**

CUAC strongly believes that with the anticipated and substantial rise in regulated metering charges arising from the draft determination, the underlying regulatory framework must have robust hardship policies and consumer protection and assistance schemes in place to ensure that consumers are not worse off financially. For a single phase, single element meter, the charges stemming from the draft determination range from \$67.79 to \$104.79 in 2010; and from \$92.12 to \$130.52 in 2011. The AER has stated that these indicative 2010 charges represent an average increase of \$53 on current (2009) metering charges, approved by the Essential Services Commission of Victoria (ESC), with a further \$25 increase in 2011.

CUAC notes that the AER has approved two element meters in the initial budget period until the communications network required to support interval meter reading required for cost reflective ToU tariffs are in place.<sup>15</sup> This would mitigate the impact of price shocks for consumers who currently have a two-element meter (with peak and off-peak tariffs) and are moved to a single element meter (with a flat tariff). Research however suggests that consumers will still see a price increase on their bills.

Higher bills have a significant impact on low income consumers and consumers experiencing hardship; it also means that a larger section of the community may find themselves in hardship. A report by St Vincent De Paul Society stated that the costs associated with the AMI roll-out alone are envisaged to increase the average annual domestic electricity bill by \$80 per annum. Such a price increase would also disproportionately impact low consumption households. The report stated that with the implementation of the Carbon Pollution Reduction Scheme (CPRS), it is likely that the basic annual electricity bill for Victorians will increase by \$280 per annum (excluding any increase arising from tariff reassignment). Further, with the cost impacts arising from a tariff reassignment from a general peak rate/two-rate to a ToU tariff, the report suggested that domestic energy bills could rise by as much as \$490 per annum. The report also illustrated that price impact on pensioners would be significantly higher.<sup>16</sup>

CUAC strongly believes that the existing hardship policies, consumer protection, and assistance schemes (including concessions scheme) have to be reviewed in light of these price impacts. This

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<sup>15</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 23-26; 81-82.

<sup>16</sup> May Mauseth Johnston, St Vincent de Paul Society, Customer protections and smart meters – Issues for Victoria (August 2009), at 51-52.

is an issue which CUAC will be taking up with the Victorian Government and with the Ministerial Council of Energy (MCE) in the National Energy Customer Framework (NECF) forum. CUAC understands that DNSPs at the recent National Smart Grid Initiative conference for example, acknowledged that the needs of more vulnerable customers (such as low income earners, those whose first language is not English, the elderly etc) must be taken into consideration to ensure they do not suffer negative impacts because of a lack of understanding of the new smart grid environment.

CUAC notes that the OIC allows DNSPs to propose charges that result in under-recovery of revenues in the initial years so as to minimise price shocks to consumers. For example, Jemena proposed under recovery in 2010 and 2011; Powercor, Citipower and SP AusNet proposed under recovery in 2010 resulting in higher charges (over-recovery) in 2011. Despite the fact that charges for the second budget period are unclear, it appears that in this initial budget period, significant expenditure has been planned and approved by the AER to set up systems for the implementation of the AMI roll-out in the second budget period. Costs associated for certain activities carried out by the DNSPs such as meter readings, de-energisation/energisation should reduce substantially as the AMI roll-out progresses since they no longer need to be performed manually once the communications network for the smart meters are activated. From a consumer perspective, there is an expectation that these charges will fall and that any additional costs will be limited to expanding the metering infrastructure since most systems would have already been set up by the second budget period. Consequently, consumers have the expectation that the AER should attempt to smooth out the costs until at least to the end of 2015 (the end of the second budget period) and sort out the over-recovery and/or under-recovery through the true-up mechanism. To ease the burden on consumers, CUAC recommends that the AER amortise or smooth out the metering charges arising from the AMI roll-out to at least until the end of 2015.

**Recommendation 15:**

To ease the burden on consumers, that the AER amortise or smooth out the metering charges arising from the AMI roll-out to at least until the end of 2015.

**Pass through of benefits**

While there is an immediate upfront cost to the consumers for the AMI roll-out, the Victorian Government has envisaged that the anticipated benefits would accrue over a long period of time. CUAC strongly believes that the AER must be pro-active and identify cost benefits to consumers and ensure that these are delivered to consumers in a timely manner. CUAC recommends that operational benefits should be accounted for and passed to consumers at least on an annual basis. As mentioned above, costs associated for certain activities carried out by the DNSPs should reduce substantially as the AMI roll-out progresses and the communications network for the smart meters activated. Customer charges should be adjusted to take into account the operational savings DNSPs' are expected to receive from the AMI roll-out. This should be monitored by the AER and reported to the Victorian Government on an annual basis to ensure that maximum cost benefits are passed through. Otherwise there is the risk that DNSPs might underestimate the cost benefits arising from the AMI roll-out so as to retain as much savings as they can.

It is also essential for the AER to consider in the next Victorian distribution price review (for the period 2011-2015), anticipated future cost savings DNSPs are expected to receive from the AMI roll-out. In addition, the AER must, in making future distribution determinations, consider how AMI affects the DNSPs' proposed network augmentation plans, such as through improved price signals and associated reductions in peak demand.

**Recommendation 16:**

That the AER :

- identify cost benefits to consumers and ensure that these are delivered to consumers in a timely manner;
- adjust customer charges to take into account the operational savings DNSPs' are expected to receive from the AMI roll-out;
- account for, and pass on to consumers at least on an annual basis, all operational cost benefits. .

**Recommendation 17:**

That the AER provide an annual report to the Victorian Government on the cost benefits arising from the AMI roll-out which has been accounted for and passed through to consumers.

**Recommendation 18:**

That the AER consider in the next Victorian distribution price review (for the period 2011-2015), anticipated future cost savings DNSPs are expected to receive from the AMI roll-out.

**Recommendation 19:**

That the AER, in making future distribution price determinations, consider how AMI affects the DNSPs' proposed network augmentation plans, such as through improved price signals and associated reductions in peak demand.

## Billing

One of the benefits which the Victorian Government envisages from the AMI roll-out is that consumers will receive more accurate bills. While consumers would receive more 'real-time' billing, it is also important for consumers to fully understand all the component costs of a bill, including metering charges as well as their energy consumption. A report by St Vincent De Paul Society identified four reasons as to why the cost of smart meter infrastructure if incorporated into the fixed charge should be itemised separately:

First, as the rollout is a Government initiative that results in a significant cost to consumers, it is important these costs are transparent, the SMI project has set timelines and consumers should expect the additional line item to change or be removed upon completion. Second, it is important that this cost item provide a benchmark for consumers if metering services become competitive post the rollout. Third, because a key objective of rolling out SMI is to improve price signals and elicit demand response - 'hiding' further costs under the fixed charge component would be counter-intuitive. Finally, it is important that consumers become aware of the rollout to increase interest and understanding of what SMI enabled tariffs will mean for their consumption patterns and bills. Itemising the SMI costs on electricity bills could be an effective way to ensure interest in a public education campaign.<sup>17</sup>

CUAC supports the above. We strongly believe that there must be greater transparency in billing and that the AMI roll-out costs must appear as a line item on the consumer's bill. CUAC notes that the AER has acknowledged that 'at this time, customer retail energy bills do not separately record the charges associated with metering services. Therefore, from 2010, customers will not be able to determine the new AMI charges in their electricity accounts.'<sup>18</sup> CUAC recommends that the AER initiate action to ensure customers' energy bills separately record the charges associated with metering charges commencing on 1 January 2010. The AER should recommend to the ESC amendments to the *Energy Retail Code* to provide for itemisation of charges on the consumer's bill. Amendments could be made in line with the following clause:

### 4.3 Bundled charges

On request, a **retailer** must provide a **customer** with reasonable information on network charges, retail charges and any other charges relating to the sale or supply of **energy** comprised in the amount payable under the **customer's** bill.

This clause should be amended to state:

### 4.3 Bundled charges

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<sup>17</sup> May Mauseth Johnston, St Vincent de Paul Society, Customer protections and smart meters – Issues for Victoria (August 2009), at 43. See also See May Mauseth Johnston, St Vincent de Paul Society, Customer protections and smart meters, Background paper (August 2009), at 43.

<sup>18</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 142.

A *retailer* must provide a *customer* with all relevant information on network charges, retail charges and any other charges, including metering charges, relating to the sale or supply of *energy* comprised in the amount payable under the *customer's* bill.

**Recommendation 20:**

That the AER initiate action to ensure customers' energy bills separately record the charges associated with metering charges commencing on 1 January 2010. That the AER recommend to the ESC amendments to the *Energy Retail Code* to provide for itemisation of charges on the consumer's bill.



### Consumer benefit?

The Victorian Government has indicated that consumers will be better off as a result of the AMI roll-out with retailers and DNSPs providing innovative products and services including ToU tariffs. In addition, consumers will be able to manage their energy use, including reducing electricity usage and/or shifting electricity usage to lower cost off-peak periods through the provision of better information.<sup>19</sup> DNSPs have also indicated that they will be relying on consumers to fundamentally change the way they use energy.

Smart meters allow and facilitate the introduction of ToU tariffs that charge consumers significantly lower prices for off-peak usage than for peak usage. Cost reflective ToU tariffs aim to incentivise consumers to shift energy demand from more costly peak periods to less costly off-peak periods, thereby changing consumption patterns. The shift in demand is expected to result in more efficient network utilisation and potential deferral of network augmentation. There is however uncertainty about the likely response of consumers to the AMI roll-out. While consumers have to pay for the smart meter infrastructure upfront, there is no guarantee that the advertised benefits would accrue and produce the expected savings or benefits. Whether consumers benefit or not depends on a range of factors.

#### Comment:

The need of an appropriate consumer protection framework (which has been addressed above), the importance of consumer education, tariff reassignments and the need for transparency in billing (which has been addressed above) are pre-requisites for some of the advertised benefits of the AMI roll-out to be achieved.

CUAC acknowledges that such matters are outside the scope of AER's responsibilities for the AMI roll-out. Nevertheless, these matters are key to attaining some of the advertised benefits of the AMI roll-out. CUAC encourages the AER to acknowledge in its final determination the importance of such matters in delivering the advertised benefits of the AMI roll-out. CUAC highlights below some of these issues and urges the AER to raise these with the Victorian Government and/or the ESC.

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<sup>19</sup> For example, SPA claimed that retailers would benefit from receiving information about their customers' energy consumption profiles, enabling them to offer innovative tariffs aligned with customers' usage. See Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 81.

### *Consumer education*

Consumers have to understand the new environment in which they will be operating in and fundamentally alter the way they currently use energy. Dynamic pricing, for instance, will increase the complexity of consumers' electricity offers. Consumers need to be educated about smart meters, how to take advantage of the innovative services and products (including Time-of-Use or ToU tariffs) anticipated from the AMI roll-out and how to manage their consumption in order to mitigate the impact of increasing electricity prices. This is because to stimulate any demand side response to energy consumption, consumers have to be informed and actively participating in the new environment. They must also be informed enough to know how to search for the most appropriate tariff offer and be able to switch between offers without incurring exit fees.

CUAC notes that DNSPs are relying on the AMI program to facilitate more effective management of their networks and, as such, minimise capital investment (capex) and operating and maintenance expenditure (opex) while maximising delivery of energy using a cost effective level of assets. DNSPs themselves have argued that the success of the AMI program (and other smart network programs) depends on consumer education on the opportunities available to them.

The AMI roll-out provides an opportunity to educate consumers about energy efficiency and how to manage their energy consumption in order to reduce their bills. It appears that only SP AusNet's customer service costs mention educating consumers about the AMI roll-out; 'development of a communication and engagement strategy to educate and inform customers about the AMI project.'<sup>20</sup> It may be that costs associated for education is subsumed in other categories for other DNSPs. CUAC urges DNSPs to develop comprehensive consumer educational programs on smart meters using the costs allowed under the draft determination as well as revenue gained from the AMI roll-out. As the AMI roll-out is a Victorian Government initiative, the Government should also be more actively involved in publicising the AMI roll-out (for example, through advertisements in the media), engaging with consumers and providing information on smart meters to consumers. CUAC intends to take this up with the DNSPs and the Victorian Government in the appropriate forum. Information should be provided in a variety of medium including the internet. It appears that currently only the Citipower and Powercor websites have up to date information on the AMI roll-out.<sup>21</sup> A good website for DNSPs and the Victorian Government to emulate would be the interactive Hydro One Network website on smart meters.<sup>22</sup>

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<sup>20</sup> Australian Energy Regulator, Victorian advanced metering infrastructure review, 2009-2011 AMI budget and charges applications (July 2009), at 102.

<sup>21</sup> See <http://www.powercor.com.au/SmartMeters/> accessed on 10 September 2009.

<sup>22</sup> See [http://www.hydroonenetworks.com/en/community/projects/smart\\_meters/](http://www.hydroonenetworks.com/en/community/projects/smart_meters/)

### ***Ability to reduce demand***

Electricity is an essential service and as such there are limitations on the ability of households to reduce demand in response to price increases. There are a range of factors which impact upon a household's willingness and ability to respond to price signals for energy.<sup>23</sup> For instance, a shift of energy demand from peak to off-peak periods is more likely to occur if consumers have a sufficiently large financial incentive, through ToU tariffs to run appliances during off-peak periods. In addition, a consumer's ability to respond to price signals is highly dependent on his/her life style and needs. There will be groups within the community such as stay at home mothers, those unemployed, pensioners, those with special medical needs (such as those on life support, those with multiple sclerosis as they require air conditioning) who will be unable to shift their usage to less costly off-peak periods and therefore have higher bills.<sup>24</sup> Therefore, the need to review the existing hardship policies, consumer protection, and assistance schemes (including concessions scheme) in light of these price impacts. Further, consumers residing in areas where there is a high penetration of reticulated gas (that is, dual fuel households), have a limited opportunity to use electricity during non peak periods and hence lower their bills because these households already use very little off-peak electricity.

### ***Tariff reassignments***

Cost reflective pricing like ToU tariffs, is a key mechanism to send price signals to consumers. Generally, the network tariff shape often dictates the retail tariff shape. It is essential for retailers to pass on new tariff structures (the anticipated ToU tariffs) onto consumers as soon as practicable after installation of a smart meter at a consumer's premises. Nevertheless, the commercial strength to do so may well vary between retailers and the retailer may or may not pass on the tariff shape in the retail tariff to the consumer. It is unfortunate, however, that following the AER's Final Decision on Interval Meter Reassignment<sup>25</sup> retailers need only inform consumers about tariff changes no later than the first bill after they have taken effect (as per clause 26.4 of the *Energy Retail Code*). This clearly is disadvantageous to consumers as it does not consider the impact of bill increases on consumers. To create more equitable outcomes for consumers, the NECF needs to address this issue of retailers providing advance notice to consumers when there is a tariff reassignment or variation. This is an issue which CUAC will be taking up in the NECF forum.

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<sup>23</sup> See May Mauseth Johnston, St Vincent de Paul Society, Customer protections and smart meters, Background paper (August 2009), at 29.

<sup>24</sup> See May Mauseth Johnston, St Vincent de Paul Society, Customer protections and smart meters, Background paper (August 2009), at 37.

<sup>25</sup> Australian Energy Regulator, Interval meter reassignment requirements, Final Decision (May 2008)