

## Background Paper

### Overview of submissions to Department of Treasury & Finance (DTF) Review of Advanced Metering Infrastructure (AMI) program

#### Summary

The Minister for Energy and Resources and the Treasurer asked the Department of Treasury and Finance (DTF) to undertake an independent review of the Advanced Metering Infrastructure (AMI) Program to address issues raised in the 2009 Victorian Auditor-General's Office Report on the AMI program. To inform the review, the DTF published an Issues Paper for Public Consultation in May 2011, seeking submissions on issues associated with the program, in particular:

- estimating the identified costs and benefits of the program
- realising the identified benefits of the program
- future options to maximise and bring forward net benefits to consumers.

Public submissions closed on 21 June.

Forty three submissions representing a range of stakeholder interests were received and published on the DTF website. In addition, approximately 400 submissions were received from individual members of the public. The DTF advised that it would not publish these submissions as it was clear to the department that many individuals were unaware that their submission may be made public. The DTF published a summary of themes arising from these submissions, which showed that they raised similar issues to all stakeholders.

Forty one published submissions supported the program continuing, albeit with modifications. Two stakeholders – the Association of Independent Retirees and Metropolis Metering Assets – advocated a suspension of the program until the benefits could be more robustly demonstrated and the program properly implemented.

Many submissions considered that the AMI program had the potential to improve the efficiency of the networks and therefore reduce network costs for customers. Stakeholders also noted that the technology increased the potential for the retailers to offer tariffs and other products to customers to decrease their consumption and energy bills. Some products could also be offered by third party suppliers.

All stakeholders and individual submissions were critical of some aspects of the program's implementation to date. A review of the stakeholder submissions shows that there was consensus on five priority areas that should be addressed to improve the effectiveness and efficiency of the program, although there was not always consensus on the best approach to addressing the issues. The five areas are:

- customer information and education
- pricing options and principles
- access to information and benefits
- cost-recovery regulatory arrangements

- non-price regulatory arrangements.

Table 1 below sets out the key recommendations from the stakeholders on these matters.

Table 1 **All stakeholders – key recommendations**

Priority areas	Consensus by most/all stakeholder groups	Differing views by some stakeholder groups
<b>Customer education &amp; information</b>	<p>Implement a comprehensive consumer education and information program, coordinated by Government in consultation with industry and consumer groups. The program should highlight:</p> <ul style="list-style-type: none"> <li>• the benefits of smart meters</li> <li>• how ToU tariffs and in-home displays work together to shift consumption to cheaper times</li> <li>• how customers can better understand and benefit from dynamic and critical peak pricing</li> <li>• the implications of customers not enabling a meter exchange, and</li> <li>• reassure customers about the health issues/risks.</li> </ul> <p>Extend and improve the Essential Service Commission's Yourchoice website.</p> <p>Increase customer understanding about how to reconcile their bills.</p>	
<b>Pricing options and principles</b>	<p>Develop pricing principles and provide tariff options, including voluntary tariff options:</p> <ul style="list-style-type: none"> <li>• a basic tariff for low income customers who choose not to enter the market</li> <li>• a flat tariff for any customer who wants the option</li> <li>• enable customers to access both static and dynamic tariffs.</li> </ul>	<p>Prohibit critical peak or dynamic pricing arrangements for domestic electricity consumers until pilot trials are undertaken to assess the health and welfare concerns.</p> <p>Maintain the deregulated retail market and do not regulate tariffs.</p> <p>Introduce network and retail TOU tariffs and the progressive mandatory transfer of customers to those tariffs.</p> <p>Require retailers to:</p> <ul style="list-style-type: none"> <li>• provide more information to customers on these tariffs and their benefits</li> <li>• mimic the distributors' tariff structures</li> <li>• provide more tariff information on customers' bills.</li> </ul>
<b>Access to information and benefits</b>	<p>Maximise the benefits of smart meter consumption data for all consumers:</p> <ul style="list-style-type: none"> <li>• provide affordable access to the Home Area Network (HAN) and other devices.</li> </ul> <p>Examine whether there are impediments to customers accessing consumption data directly from the distributors and third party intermediaries.</p> <p>Review the adequacy of energy concessions:</p> <ul style="list-style-type: none"> <li>• Provide a rebate to cover the annual cost of the smart meter to all Victorians with a concession card</li> <li>• Provide financial support to allow concession card holders to buy and install an in-house display free of charge.</li> </ul>	<p>Support a distributor-led HAN system.</p> <p>Allow concession card holders to opt-out of installing a smart meter.</p>
<b>Cost-recovery regulatory arrangements</b>	<p>Review and amend the Order-in-Council to increase the requirements on distributors.</p> <p>Progressively implement the national framework, including the national minimum specifications.</p> <p>Retain focus on the benefits to Victoria.</p>	<p>Maintain the existing Order-in-Council.</p> <p>Transition the smart meter framework to an open access and competitively neutral regime.</p> <p>Require the AER to monitor efficiencies and benefits passed through to customers each 2 years</p> <p>Introduce cost-reflective charging for customers who opt to have manually-read meters.</p>
<b>Non-price regulatory arrangements</b>	<p>Ensure that customers' privacy rights are retained.</p> <p>Ensure that the existing radio frequency band is preserved for smart meters to avert the need for any further costs to be incurred.</p>	<p>Review the Energy Retail Code to strengthen rights for customers, including requiring retailers to provide In-Home Displays before customers are allocated to TOU tariffs.</p>

Priority areas	Consensus by most/all stakeholder groups	Differing views by some stakeholder groups
		Prohibit supply capacity control products for debt-management purposes indefinitely and review their appropriateness before enabling use more generally. Review the current regulatory requirements (Energy Retail Code) to remove barriers to innovation and product development.

## Overview of submissions

Submissions were received from the following stakeholder groups:

- Consumer groups
- Retailers
- Electricity distributors
- Regulators
- Energy ombudsman
- Industry bodies
- Individuals whose submissions could be published
- Energy consulting/technology firms.

The key points arising from the submissions are summarised below.

### Consumer groups

Submissions were received from eight consumer groups. They generally supported the program, but considered that the net savings to customers had not been sufficiently demonstrated to justify the costs. Their submissions were particularly directed at the perceived negative price impacts for low income or vulnerable customers, that is, those customers who could not shift their consumption to potentially benefit from lower prices. They were also concerned about the costs for low income customers, including concession card holders, of in-home display devices and other products to measure consumption and the additional costs of the smart meters themselves.

All submissions were critical that the information to consumers generally had been deficient and/or confusing and considered that an examination of the perceived health impacts should be undertaken.

The key recommendations in these submissions were to:

- ensure a range of time-of-use tariffs is available, their takeup is voluntary, customers are left with the choice of a basic flat tariff and there is an orderly transition to new tariff arrangements
- enable the choice of meter to be voluntary, particularly for concession card holders
- review the Order-in-Council (OIC) to increase scrutiny of the distributors' costs and move to the national framework
- implement a comprehensive Government-led information and education campaign

- review the adequacy of concessions, consider a meter rebate for concession card holders, and generally strengthen the customer protection regulations including for supply capacity control products
- ensure the readiness of all participants, particularly the retailers, to efficiently manage customer issues.

### **Retailers**

Three retailers made submissions – AGL, Origin Energy and Simply Energy. Their general position was that suspending the program now would generate considerable costs for all participants, including consumers, and that attention should be given to maximising the benefits and services for consumers in the future. They advocated that the deregulated retail market should be maintained and that retailers should be left to offer the best tariff to customers.

Their key recommendations were directed at:

- tariff structures and options, including standardising network tariffs
- improving customer information and education, including on the benefits of time-of-use pricing options
- amending the concessions framework and offering rebates for low income customers
- removing the regulatory barriers to innovation and reduced costs
- support a national approach to meter provision and installation and cost-recovery.

### **Electricity distributors**

All Victorian electricity distributors made submissions. They asserted that the distributors were best placed to make the most efficient and effective long-term decision for consumers in respect to metering, and that they were well on track to meeting the AMI project objectives. They argued that the Order-in-Council (OIC) provided the minimum level of comfort to the businesses to make the necessary investment decisions. They believed that the review, together with the moratorium on network tariff structures, was impacting negatively on consumer confidence in the program and the benefits that could be derived while increasing costs associated with the rollout.

The distributors recommended:

- a transitional three-part network tariff structure reflecting individual network constraints, but not a standardised approach across Victoria
- the progressive transfer of customers onto network and retail time-of-use tariffs, with the retailers replicating the network tariff structures and differentiating the network charges to customers on their bills
- a distributor-led home area network (HAN) system, with a web-portal to enable data access by customers to the distributors and a removal of barriers that only allow retailers to provide the data to customers
- consumer information and education programs to demonstrate the benefits of smart meters, but also to inform consumers of the cost implications of retaining their manually-read metering services

- retaining Victoria’s customer protection framework in the transition to the National Energy Customer Framework (NECF) and ensuring that the existing federal radio frequency regulation is retained.

### **Regulators**

The Essential Services Commission (ESC), the Australian Energy Regulator (AER) and Australian Energy Market Operator (AEMO) made submissions. AEMO provided an update on the processes to implement a National Minimum Functionality for Smart Meters and the AER asserted that the OIC restricted it from implementing the more robust cost-recovery regime allowed under Chapter 6 of the National Electricity Rules (NER).

The ESC made a number of recommendations to improve information to customers, including a proposal to increase the usefulness of the Yourchoice website. It noted that additional Government funds would be sought for substantial modifications to the website. The ESC also:

- highlighted that additional regulation may be required to address privacy considerations and allow access of data by third party intermediaries so that services to consumers could be enhanced
- advocated a “safety net” flat tariff option as well as assistance to affordable in-home displays and secure web portals for low income or concession card holders
- proposed additional requirements on embedded retailers through the General Exemption Order and landlords through the Residential Tenancies Act.

### **Energy and Water Ombudsman, Victoria**

The Ombudsman noted the number of complaints about smart meters and foreshadowed an expectation that the complaints would increase. She made recommendations to:

- allow concession card holders to opt-out of having a smart meter installed and all customers a choice of tariff, including a flat tariff
- increase customer information and education generally about the benefits of the program and specifically about how to understand their bills and consumption patterns and make changes
- increase concession payments and provide concession card holders free in-home displays and other useful tools
- prohibit retailers from referring to smart meters in their marketing campaigns
- require landlords to meet electricity supply charges through the Residential Tenancies Act.

### **Industry Bodies**

Submissions were received from the Energy Networks Association (ENA), the Energy Supply Association of Australia (ESAA) and the AMI Policy Group. All submissions supported the continuation of the program, noting the substantial work to date. The ENA cited the Ministerial Energy Council (MCE) commitments to a National Smart Meter Program, and the findings of the national cost-benefit analysis of the net benefit of a distributor-led roll-out in Victoria.

The ESAA noted that consumers were facing costs now but that most benefits will accrue in the future, meaning a number of challenges to present the program positively now. In its view, however, this should not be a reason for terminating the program. Both the ESAA and ENA urged that the costs to consumers of stopping the program now be considered, as well as the potential benefits of critical peak pricing incentives to consumers.

The AMI Policy Group provided a summary of the operational work implemented to date.

### **Individuals**

Adjunct Professor Alan Pears, RMIT and Mr Greg Barber, MLC made submissions. Both submissions supported the program, noting that attention had been disproportionately focused on costs rather than the benefits.

Their key recommendations were:

- improve program governance and accountability, including widening the representation of individuals and outside bodies, including academics on the oversight body
- inform and educate the public about all aspects of AMI, including how to manage consumption and use of tools to respond to price signals
- allocate Government funding to assist low income customers and concession card holders to access in-home displays and other relevant tools and increase regulation on retailers to require them to assist these customers with such tools
- increase the information available to individual customers through the Yourchoice website
- increase the monitoring of distributors through the OIC, including an annual assessment of the efficient savings passed through to customers.

### **Energy consulting/technology firms**

A large number of firms made submissions. Most were generally supportive of the program and its potential to provide benefits to consumers including through broader smart grid projects. Some submitted that there were inconsistencies between the findings of the cost-benefit analyses and the actual outcomes for customers, and others considered that the lack of certainty in the regulatory cost-recovery process was negatively impacting on the outcomes for consumers.

One submission strongly criticised the “poorly conceived and executed program implementation” while others asserted that the program should be viewed as a “strategic policy that is entirely consistent with global efforts to build a modern energy infrastructure that meets the diversifying energy needs of consumers and industry”.

There were a large number of recommendations, including:

- removing the barriers to third party intermediaries accessing information and data on behalf of customers and support for a centrally operated web portal to deliver HAN services in the short-term
- support for a national approach to meter provision and installation
- regular information and education to consumers, including information on how to benefit from smart meters and understand and act on consumption and pricing information

- requiring retailers to implement time-of-use tariffs, including enabling a flat tariff below a consumption threshold
- increasing access to in-home displays and other tools by consumers
- strengthening the OIC to ensure more prudent expenditure by the distributors and increased monitoring by the AER.