

Regulatory Review – Smart Meters
Essential Services Commission
Level 2, 35 Spring Street
Melbourne
VIC 3000

31 May 2010

By email

Dear Dr Ron Ben-David,

Regulatory Review – Smart Meters

Australian Power & Gas (APG) welcomes the opportunity to provide comments on the Essential Services Commission of Victoria (Commission) regulatory review of Smart Meters. As you would no doubt be aware the introduction of Smart Meters brings with it significant challenges for the Victorian market. Challenges that must be overcome to ensure the transition to Smart Meters occurs efficiently and effectively whilst limiting any adverse impacts on customers or market participants.

APG's response largely focuses on the issues that impact the economic efficiencies and cost benefits associated with the introduction of Smart Meters. APG would point out that the implementation of Smart Meters across Victoria has come at considerable cost to the market both in terms of capital costs and outlay in preparation for the changes (process and systems) brought about by the introduction of Smart Meters and in terms of decrease in consumer confidence in the energy industry itself which has been brought about from the lack of Government initiated consumer education and uncertainty created through inconsistency in the information provided to customers.

As a result any further costs attributed to the rollout must be considered carefully and should only be allowed to proceed where a robust and transparent cost benefit analysis proves the further expenditure (cost) provides a significant benefit to the majority of consumers whilst having little impact on market participants.

Any significant regulatory changes will only add to the need for further customer education. Our strong view is that there is no justification for the introduction of new regulatory changes off the back of the introduction of Smart Meters.

Regulatory changes should not be considered until the Smart Meter market is more mature. As noted in the issues paper, only 25% of customers are to have smart meters installed by 30 June 2011. It is essential therefore that any rules are transitional until all parties gain a better understanding of the effect of smart meters on the market.

Furthermore, there should be no new/enhanced regulations until there is sufficient research into customer wants and needs. Any changes that result from this review should only occur where an evidence based cost benefit analysis supports the need for a change.

There is a need for consistency throughout the industry, particularly from bodies such as the Ombudsman and the Commission, to whom customers look to for guidance regarding the energy industry. If customers are given the impression that Smart Meters are not a positive advancement for the industry and that they will provide enhanced data accuracy and the potential for innovation, there is the potential to further undermine the rollout.

Our detailed comments are provided in the attached. Should you wish to discuss any aspect of our submission I may be contacted on (03) 8621 3701 or via email: tjennings@auspg.com.au

Yours Sincerely

Thomas Jennings
Regulatory & Compliance Manager (Victoria)
Australian Power & Gas

Issue for comment

Are there other guiding principles to which the Commission should give consideration in this review?

The financial costs of supporting new systems and processes are proportionate to the benefit across all consumers, and properly allocated between retailers and distributors, where appropriate.

Issue for comment

Are there enhancements to the current regulations which are necessary for vulnerable customers arising from the implementation of smart meters?

Timeframe	Urgency	Comments
Continuation of current regulations	N/A	Regulations need to continue protecting customers.

There is no need for additional regulation. Instead the focus should be on ensuring a consistent approach is taken, and that any changes to regulations continue to protect vulnerable customers. Again any changes would need to be satisfied through a robust cost benefit analysis approach.

Issues for comment

Will the proposed approach to including the consumption by tariff segment, total consumption and tariffs for the billing period ensure customers maintain their ability to confirm the accuracy of the bill?

What are the implications for cost, feasibility and information value to customers of the options for the meter's total accumulated consumption on the bill?

Timeframe	Urgency	Comments
Roll out an explanation of the bill with all new Smart meter bills.	Important that customers understand and trust their bills as soon as they are on new ToU tariff.	For customers to trust their bills a retailer education plan must be supported by the government.

Any change to bills and billing format is extremely costly, as a result any change must provide "value for money" for all customers. With access issues alleviated, Smart Meters provide a greater opportunity for bills to be based on actual data, therefore customers should have an increased level of confidence in the accuracy of their bills.

Industry and Government have a role to play in providing sufficient information to customers so that they have an understanding of the positive effects of Smart Metering and the likelihood of greater data accuracy. Retailers are able to provide a bill insert educating customers as to the new ToU

tariffs, and how these are represented on bills using actual data. In addition to this the Government will be required to provide customer education to ensure customers have confidence in their new Smart Meter bills.

Finally, the message of positive enhancements to meter data accuracy provided by Smart Meters should be consistently promoted across the industry. There is a risk that without a consistent message, particularly from the Commission and Ombudsman to whom customers look to for guidance, the Smart Meter initiative will be undermined through a lack of consumer confidence.

Index Read values are unreliable as a consumption reconciliation tool. There may be discrepancies with the difference between two Index Read values and the aggregate of half-hour interval data due to substitution/ estimation of interval data. Timing differences between when the Index Read values are read and the billing period start and end date of interval data may lead to other discrepancies. Therefore an index read provided on the bill is likely to confuse customers, particularly where customers are looking to validate bills. Given viewing the physical meter will no longer provide a simple point of reference to validate consumption, validation can easily be done through monitoring consumption trends and reconciling usage with previous months.

Issue for comment

Comments are sought on when customers should be advised that their bill is estimated.

Comments are also sought on whether there should be some default tariff arrangements impacting distributors, retailers and customers when bills are estimated.

Timeframe	Urgency	Comments
Rolled out with new ToU tariffs	Need a policy on estimates for implementation with new Tariffs	Estimates will be significantly more accurate, as well as very rare.

Estimated reads under Smart Meters are considered to be almost as accurate as actual reads, due to the amount of data the estimate is based on. It should be considered whether 'estimated reads' is an appropriate term due to their accuracy, by including estimated in the name it implies to the customer a potential lack of accuracy. Consideration should be given to changing the name to 'replacement read' to provide the customer with a greater level of confidence in the bill.

Due to the increased flexibility and the ability to tailor tariffs to customer types, to switch to a default tariff when there are estimates could potentially disadvantage customers.

Where a bill is estimated the customer should be informed, and the actual difference when known, added or subtracted from the next bill. However, we propose to only include information to the customer that the bill is estimated, if the entire bill is estimated.

Estimates should decrease significantly with Smart Meters, as data will be provided remotely read daily.

Issue for comment

The proposal is to retain the current requirement that customers be notified that any part of a bill is based on substituted data.



Timeframe	Urgency	Comments
Rolled out with ToU tariffs	Rolled out with ToU tariffs	Education required as what a substituted read is.

We do not believe customers should be informed where part of their bill is substituted. With substitution of Smart Meter data, it is quite probable that substituted intervals will never be replaced with actual reads. The Commission must consider whether customers will fully understand when substitution is applied and whether this requirement will simply lead to customer confusion and unnecessary complaints. Importantly, we question the necessity of informing customers of a substitution when their future bills would be adjusted with actual reads.

Issues for comment

The current regulations for explicit informed consent may be seen to be acting as a barrier to customers accessing more timely information upon which they could better manage their costs. Views are sought on:

- Whether an ‘opt-out’ approach to monthly billing for deemed or standing offer customers is appropriate?
- What are the implications for the costs and timing of the current collection cycle if customers move to monthly billing?
- How should any changes to the customers’ current billing cycles be implemented?

Timeframe	Urgency	Comments
As soon as possible to provide customers and retailers the greatest opportunity to adjust to the new billing cycle.	Due to the discussions regarding the UoSA this should be a priority.	A change needs to be supported by the government.

APG would not support the ‘opt out’ approach. Having an ‘op out’ option would lead to a requirement on the retailer to support two different platforms of payment terms for customers and this would have ramifications to managing payment terms, notifications, collections etc. As a consequence of two platforms of payment terms, complex and costly enhancements would be required to billing systems. For this reason, we believe the industry needs an all in or no change approach to moving to monthly billing.

The biggest issue in moving to monthly billing will be around system changes, particularly as it will see a Victoria’s billing no longer in line with the other states (and that of customers with accumulation meters). Explicit Informed Consent will be an issue. The ability for retailers to switch customers to monthly billing is dependant both on the Terms & Conditions on which they are being supplied and the provisions within the Code. With regards to Network Billing we consider this to be intrinsically linked to customer billing, as noted later a move to network monthly billing needs to allow for time to move customers to monthly billing.



With regards to timings we would encourage that the current ratio's around timings for collection cycles and disconnection are maintained. Should these ratio's not be maintained there is a risk that payment cycles and bills will overlap leading to confusion.

Issues for comment

The proposal is to require retailers to provide customers with a graph similar to that used by EnergyAustralia or Ontario Energy Board when time-of-use tariffs are introduced for customers with smart meters.

What are the implications for incremental costs or barriers to innovation of this approach?

Given the customer feedback from overseas pricing pilots, and the potential move to monthly billing, mandating daily periods may also be beneficial for customers. Comments are invited on this approach.

Timeframe

Urgency

Comments

The ToU data will be the first time retailers will have seen this level of data on customers. Need time to create something.

Deadlines should be set, but these need to provide enough time to develop information.

This is an opportunity for retailers to create a point of difference, and should not be regulated heavily.

A sophisticated system delivering ToU data to customers will take time to develop and incur significant cost. It is likely that this will be an area where retailers will be keen to provide some differentiation, as we look to provide the most comprehensive information in the easiest to digest format. It is important that any regulations in place do not hinder this development and stifle competition, as this will allow retailers to be innovative, to provide the best service to customers, and create a point of difference.

It should also be noted that not all customers will be looking to access this level of information. Before any regulations requiring system upgrades and investment to be undertaken, a cost benefit analysis needs to be carried out to understand how many customers will utilise this information.

Given the limited space available on the bill and the need for an increase in graph size to accommodate all ToU data, it is unlikely that any benchmarking will fit onto the bill. It should also be noted that any benchmarking data will be based on quarterly accumulation data, and unlikely to be relevant when compared to half hourly ToU data.

Issues for comment

Greater transparency through information to customers is a prerequisite for customers to benefit from the introduction of smart metering and unbundling could be considered to deliver part of this information. However, some key questions are:

- Would customers gain any information from unbundling of the distribution charges if the retailer does not base its tariff on the distributor's tariff structure?
- Would it be helpful or not for customers to have some charges unbundled, but not others?
- Does unbundling of network charges and tariff alignment have the potential to reduce retailer flexibility in tariff offerings?

- What are the costs, benefits and feasibility of greater unbundling? Should regulation go beyond requiring the unbundling of retailer and distribution cost sub-components of wholesale and metering costs?

Timeframe	Urgency	Comments
Need to ascertain whether this is something that all customers would benefit from.	Currently not shown, no need to rollout anything immediately.	Research is required to confirm how much of an issue bundled charges are for customers.

There is a concern that this is likely to confuse customers. From our experience the majority of customers are not concerned with the input costs of retailers' tariffs, but rather the level of the tariff itself. Further, having the tariff itemised to a lower level does not provide the customers with any benefit or added value. If this information is included it will require all consumers to be educated to ensure that there is an understanding of all unbundled charges. It will also see a need for retailers to provide detailed education for call centre staff so they can answer queries regarding the different charges. Including these charges would also see a need to alter the bill to include this additional information, which would be a major system cost.

As stated previously a cost benefit analysis would need to be carried out. Further to this, as above with additional billing information, consideration has to be given whether this information would be considered of use to the majority of customers.

It should also be noted that a significant amount of information is available to customers via the AER's decisions, and AEMO published data, should a customer require more in-depth data.

Issue for comment

The Commission considers that any changes to the regulation on the notification of tariff variations should wait for the outcomes of the Victorian Government's deliberations, so that there is consistency between customers on market contracts and those on standing contracts.

Nevertheless, interested parties may wish to submit their comments in regard to this matter.

Agree with the above comments

Issue for comment

Will the regulation of the provision of billing level data continue to meet the needs of customers to allow them to reconstruct their historical bills in a smart metering environment for ad-hoc or occasional purposes?

The current regulations are sufficient to deal with the provision of data.

Issues for comment

The Commission considers that there is a need for regulation to require customer access to metering data that will be available on a daily basis through secure communication methods capable of protecting customer privacy.

Comments are sought on:

- whether distributors as well as retailers should be obliged to provide metering data sets to customers



- how distributors or retailers can provide interval data from smart meters securely to customers
- how would the cost of such a service be assessed?

What other information and information sharing issues should be considered by the Commission in reviewing the regulations?

We do not believe there is a need to regulate a requirement for retailers to provide customer access to metering data. Retailers recognise it is in their own best interests to provide services and information to its customers, where a retailer fails to provide the level of service expected by the customer the retailer risks losing the customer.

The method in which a retailer provides information to a customer should be left up to the retailer as this is a point of differentiation between retailers. If a retailer provides this information to customers through a web portal, it is up to the retailer to ensure that the portal has the appropriate security settings. The provision of data is the responsibility of the retailer as they have the relationship with the customer.

Issue for Comment

Comments are sought on these, or alternative, options for ensuring customers are able to compare competing retail offers when time-of-use tariffs and more complex tariffs are introduced.

Timeframe	Urgency	Comments
Wait for the AER consultation on Retail Pricing Information Guidelines and Comparative services to be completed.	Should be delayed to avoid duplication.	Given the number and complexity of new tariffs this will not be an easy process.

We would urge the Commission to defer any decision on the way customers are able to make comparisons of retailer offers until the AER consultation on Retail Pricing Information Guidelines and Comparative services has been completed.

Whilst we would support the concept of usage models, these would need to be researched and it would take time to develop, as a result this would not be available immediately. Consistent language across the industry would allow consumers to better understand their bills.

It is important that if set tariffs are created, that the ability of retailers to be innovative with their own tariffs is not limited.

Average unit price would be of limited use to customers, and may lead to complaints regarding any variations away from the unit price.

Issue for comment

Should the regulation require the distributors to disconnect and reconnect premises more quickly if the smart meter functions are available?

Timeframe	Urgency	Comments
Where the functionality is	When available	Justification should be required



available it should be provided

where this service is not used.

Where this service is available justification should be provided if it not utilised.

Issues for comment

What steps could be taken by the distributors and/or the retailers to ensure that the wrong customer is not disconnected with smart meters?

Should retailers take additional steps prior to disconnecting all customers, as well as noting on the disconnection warning that the disconnection may be carried out remotely?

Timeframe

Urgency

Comments

Similar to the above when the functionality is available.

When available

Agreed two attempts should be made.

We see no need for any additional steps simply as a result of the introduction of Smart Metering, whether the meter is disconnected physically or remotely should be have no consequence provided the retailer acts within the allowed timing requirements.

Issue for comment

Under remote disconnection should the Commission require that information be provided by a sticker placed in the meter box?

What other options are available for ensuring new occupants know how to go about finding a retailer and getting reconnected?

Timeframe

Urgency

Comments

If a decision is taken to include a sticker this should be done with the roll out.

As with timeframe should a sticker need to be placed in meter boxes this needs to be done as soon as possible with the rollout.

Victoria is the highest churning market in the world, due to the amount of publicity regarding the right to switch it is highly unlikely customers are not aware as to how to find a retailer.

Under remote disconnection residents are unlikely to have any interaction with their meter; as a result it is unlikely a sticker in the meter will be of assistance. It should be considered in perhaps placing the sticker in the fuse box.

Victoria is the highest churning market in the world; as a result it would be highly unlikely that a customer is not aware of their right to churn. Particularly following the recent ESC bill insert making customers aware of the right to churn. Should there be concerns that customers are not aware of the right to switch it should be considered including Your Choice details with the estate agents introductory pack.

Issue for comment



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The regulatory proposals set out above do not appear to be impacted by these developments. However the Commission welcomes comments on this view.

No comment

Issue for comment

The Use of System Agreements are amended to provide for monthly network billing of customers with smart meters, but in the period until 1 January 2012 (or some other agreed future date) the payment terms for such network bills be extended if the retailer is billing the customer quarterly. UoSAs currently provide that retailers must pay network bills within 14 days. This would be extended to a number of days that produced an equivalent outcome to their current level and pattern of payments.

Under this amendment, distributors could implement their new billing systems, generate monthly network bills and all of the distributors' objectives in the AMI Process Model would be attained. For retailers, while data and bills would begin to flow to them more frequently, there would be no acceleration of their payments to distributors, no mismatch between receipts from customers and outgoings to distributors, and therefore no increased working capital required. Distributors' working capital positions would be unchanged from their present state, rather than being "immaterially" advantaged.

Comments are invited on whether such a solution is supported, whether it can be achieved by negotiation, or whether the Commission should amend default UoSAs to bring about this outcome.

Customer and Network Billing are linked as a result it is not appropriate to move to monthly network billing, without first having the opportunity to move customers to monthly retail billing.

Further to the above concerns we believe that more time is required for retailers to be given the opportunity to adjust systems for the change in billing frequency.

This change has a significant impact on retailers, and comes at a time of considerable pressure.

We would propose that monthly billing is delayed until retailers have had at least an opportunity to change customer billing frequency. As you are aware this will require retailers to get explicit informed consent from customers.