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EnergyAustralia®

9 March 2010

Dr Ron Ben-David
Chairman
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

Dear Dr Ben-David

Regulatory Review – Smart Meters

EnergyAustralia is pleased to provide this submission on issues relevant to the operation of smart meters in Victoria. EnergyAustralia is making this submission due to our interest in the deployment of smart metering infrastructure in the National Electricity Market. EnergyAustralia in unique in Australia as it has 500,000 interval meters in operation with over 200,000 customers receiving standard Time of Use billing.

We have two recommendations to assist the Commission develop a full understanding of customer impacts:

1 ***Accommodate and promote a broad definition of smart meter tariffs***

While only three tariff types are typically discussed in relation to smart meters[1], in reality, there are many alternative tariff structures being considered and assessed by Australian utilities. Attachment 1 briefly outlines two alternative tariffs structures as an example. It is highly problematic to assume that the three tariff types typically discussed reflect the only possible outcomes from smart meter tariffs.

Consequently, it is important that the Commission make stakeholders aware of the broad potential range of smart meter tariff structures, to inform debate and result in relevant regulatory amendments. Similarly, frameworks established by the Commission should be applicable to as broad a range of potential tariffs as practical.

[1] standard Time of Use (ToU) tariff, Seasonal ToU tariff (STOU) and Dynamic Peak Price (DPP) tariff

2 Utilise industry data and expertise to assess bill impacts

Analysis of bill impacts is a complex task, necessitating incorporation of seasonal consumption cycles, meter reading cycles and peak usage proportions, etc. Unfortunately, EnergyAustralia has noted material errors in the calculations and assumptions of bill impact assessments, including St Vincent de Paul Society's reports. Attachment 2 is a copy of a letter to them raising concerns in relation to their most recent report.

Thus, it is essential that frameworks for assessing bill impacts, and the bill impact work itself, include all stakeholders' input to correctly manage the complexities and minimise use of unnecessary assumptions where actual data is available.

The treatment of customers who experience bill impacts which create payment difficulties is an important matter which needs to be addressed as a matter of social policy. However, the fact that some customers may experience payment difficulty should not be seen as a reason not to allow price signals which may reduce long term utility costs to the benefit of customers more generally. The solution is to allow the price signal, whilst providing focussed relief to any affected customers who qualify for assistance.

Please contact Mr Bob Telford on (02) 9269 2136 if EnergyAustralia can be of assistance prior to the proposed 'Workshop with interested parties' in March.

Yours sincerely

TREVOR ARMSTRONG
Executive General Manager
System Planning and Regulation

Attachment 1 ***Potential Smart Meter Tariff Structures***

Dynamic Peak Rebates – the utility charges a standard (for example, flat) tariff, but provides a rebate to customers for demand reduction during dynamic events. Failure to reduce peak demand is not penalised – credits are the only incentive mechanism.

Two block DPP – a dynamic peak price tariff with two rates within the dynamic event. The low rate is at normal price levels and is charged for consumption up to a specified 'reasonable' level within the dynamic event, and a higher 'dynamic price' applies for consumption above that level. The 'reasonable' level is selected to satisfy basic living needs.

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EnergyAustralia®

10 February 2010

Mr John Falzon
Chief Executive Officer
St Vincent de Paul Society
Locked Bag 4800
BOX HILL VIC 3128

Dear Mr Falzon

I am writing regarding your recent publication on smart meters, *New Meters, New Protections: A National Report on Customer Protections.*

EnergyAustralia appreciates and agrees with your position that all customers must be offered appropriate protection if they are experiencing hardship or difficulty in paying their electricity bills – no matter which tariffs they are using.

I also agree that distributional impact studies are a worthwhile step, and would like to propose that our pricing analysts work with St Vincent de Paul and other organisations to contribute to such work. Their specialist experience and the volume of data available to them should prove invaluable.

However, in the meantime, I want to pass on two concerns we have in relation to the report. For the report's three scenarios that outlined large impacts (scenarios 2, 4 and 'Household 1 had a baby') our concerns can be summarised as:

- The assumed proportion of peak electricity usage (35%) is not representative of our typical customers. A typical customer's peak electricity usage is 22%. We also looked at 12,000 current residential customers in your scenario's usage range and found that only one percent of customers have peak usage of 35% or above.

  While we appreciate that the report noted 35% as an assumption, its criticality in the evaluation of the tariffs warrants specific justification. As the report used generic household descriptions, and didn't note that 35% peak usage was not representative of a typical customer, it incorrectly implies that the reported increases are to be generally expected for that household type. Certainly, this is the interpretation by the Daily Telegraph in their article on 2 February 2010.

- Use of a Domestic All Time tariff baseline that doesn't account for the seasonal nature of heating/cooling load - your analysis only applied the cheaper first block, but in practice, customers in the scenario's consumption range actually use a portion of their electricity in the second block, due to the concentration of electricity usage in winter and summer. The presence of even a small proportion of electricity in the second block makes the TOU bill less of an increase.

The end result is we believe the analysis of the financial cost impact of Time of Use tariffs is higher than our analysis would suggest. In the case of 'Household 1 had a baby' we believe the TOU impact was overstated. By correcting the baseline tariff for seasonal heating/cooling load, and using 26% peak usage (top quartile), rather than 31% peak usage (top 5%), the increase due to TOU would be less than $50 per year. This is far below the reported $169.

Please contact my assistant, Kathryn Rayner, on (02) 9269 2612 if you would like me to arrange a briefing with our pricing and customer hardship and prevention teams to discuss any of these issues in further detail.

Yours sincerely

TREVOR ARMSTRONG
Executive General Manager
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