



13 August 2010

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

Dear Dr Ben-David,

Regulatory Review – Smart Meters

Thank you for the opportunity to comment on a series of proposed regulatory changes to accompany the Smart Meter roll out in Victoria.

The Smart Meter program has the potential to deliver significant benefits to customers, however these benefits will inevitably take time to emerge as the technology is rolled out, the functionality is activated and both the industry and customers engage with and respond to the opportunities this new technology presents.

Red Energy agrees that a review of current regulatory arrangements is appropriate at this time to ensure that current regulations are brought up to date and appropriately reflect technological changes brought about by the Smart Meter programme. We think however that it is important that the Commission does not seek to pre-empt some of the developments that may occur, or assume outcomes that may not arise. The Commission should not seek to over regulate on behalf of customers at this early stage of the programme as this will inevitably restrict Retailers flexibility to respond to real customer's expectations and demands. Rather the Commission should adopt an incremental approach to regulatory change, responding to actual outcomes and experience of customers if it becomes necessary.

Please find attached further detailed comments on the key issues identified in the Draft Decision. Please don't hesitate to contact me if you require clarification of any of the points we have raised.

Yours sincerely,



Martin Exelby
General Manager Corporate Development

1. Assisting Vulnerable Customers (Section 3)

While understanding the Essential Services Commission's good intent to ensure Hardship customers are not adversely affected by the introduction of smart metering, Red does not support the draft decisions in Section 3. Red believes the current Hardship programme will continue to work effectively without changes and it is the role of the Government to consider whether the current energy concessions should be rebalanced between consumer segments to more effectively target those in genuine need. Currently, Government concessions are spread thinly and broadly across Victorian households and could be more effectively targeted.

It has not been necessary to date to prescribe requirements within the Hardship programme to ensure that Retailers review the appropriateness of Hardship customers' retail tariffs. The commercial interests of both the Retailer and the customer are already aligned in this respect – these customers know a better deal when they see it and Retailers don't want to exacerbate potential debt issues by charging more than is needed. Red already reviews the billing of its customers in the Hardship programme on a regular basis.

The draft decisions (box, page 12) include an obligation to "agree with participants the most cost-effective tariff". In practical terms, parties cannot be regulated into mutual agreement. Experience within our own hardship program has identified that while a customer can be given the best advice on energy savings, the Retailer has no control over the behaviour of the customer, or the choices made with regard to their own usage.

The second draft decision requires monitoring by the Retailer of the customer's behaviour and consumption to ensure they continue on the most cost effective tariff. Continuous monitoring is too vague a concept and would be open to interpretation on the frequency of reviews especially in case reviews by EWOV for example.

Together these first two draft decisions set up the Retailers to be accused of offering poor advice, on the basis of hindsight. In Red's view, neither amendment to the scheme is necessary to achieve the ESC's objectives and is more likely to increase compliance and EWOV costs that need to be recovered from customers. At most, Retailers could be requested to provide recommendations on more cost-effective tariffs if and when they are identified during their regular monitoring of Hardship cases.

Red accepts that further work and consultation is desirable prior to supply capacity control products being offered. We note however that some customers may well be attracted to such products as a budget management tool given the popularity of pre-pay metering for this purpose in other States and internationally.

2. Verifying the accuracy of the bill (section 4.2.1)

Red Energy welcomes the flexibility provided in the ESC's draft decision (box, page 18) for Retailers to determine their own format for the bill components derived from interval data. Consistent with this approach, we do not see any necessity for regulations to stipulate that billing formats must be clear, understandable and not confuse customers as this is a fundamental requirement for any successful Retailer.

Red agrees with the suggestion for inclusion of consumption by tariff segment (be that time or volume based), price per segment and the total consumption for the bill period. We also agree that information and customer education on new bill formats will be beneficial. This will again be driven by business imperatives and does not require regulation – confusing customers is not a sustainable business practice for a Retailer.

Finally, the draft decision includes a recommendation that the total accumulated consumption since meter installation up to the end of the billing period be included on the bill. We understand that this recommendation for provision of an index read is intended to enable the resident at the property to approximately match their billed consumption to their meter. In our view this recommendation is a solution looking for a problem and Red does not support it for

two main reasons. Firstly, it places a mandatory obligation on Retailers to bill data that there is no mandatory requirement on the Distributors to provide them. Secondly, the total accumulated consumption does little to assist the customer validate their bill. The bill value is determined by the time of use allocation of the billed consumption, not by the total accumulated read. Bill validation will need to be achieved through other means – comparisons to previous bill periods, self reading of the meter between bill dates, periodic reviews of meter data etc.

3. Estimated and substituted data on bills (section 4.2.2)

While Distributor's have predicted that Smart Meter technology will provide greater accuracy of data, it is too early to assume this in practice and regulations should be robust enough to cope with all scenarios. The financial integrity of the industry relies upon an uncompromising requirement for customers to still pay bills that may need to be based on imperfect meter data. Whilst unplanned, problems will inevitably arise from time to time whether due to hardware failures, interruptions to communications, data management systems or processes for exchange of information between market participants. With the vast increases in the volume of data being exchanged, it seems inevitable to us that the number of events of poor data quality will increase, though materiality of these events may reduce due to the smaller intervals of measured consumption.

The ESC's definition of estimates (that will be subsequently updated) and substitutes (which will not) is an over simplification of meter data definitions and the operation of the industry. Some substitutes may be subsequently replaced, some estimates may never be. Rules around quality and treatment of interval data are complicated and we believe that initiatives that seek to communicate these various definitions and outcomes to customers will lead to confusion and will not actually benefit customers. As far as the customer is concerned, they need to know whether their bill will be revised or not. We think it is therefore sufficient that Retailers advise their customers if the bill is an estimate and will subsequently be revised, or it is not an estimate and will remain unchanged.

If a customer's bill has been accurately and properly produced in accordance with industry rules and will not change in future, it is not relevant to the customer whether the bill has been created with actual reads or includes some permanently substituted data. If the data substitute is permanent, retailers incur the same network and energy costs as they would for actual data. The customer's obligation to pay that bill should remain unchanged otherwise these costs must be recovered by Retailers through general tariff increases.

Requiring bills including substituted data to be marked as substitutes delivers no value to the customer concerned, but creates a risk that such customers interpret this as a reason not to pay. This will impose further additional costs on the Retailers that will ultimately need to be recovered through general tariff increases. At the very least, the approach is likely to increase the number of calls to retailers, again increasing industry costs and prices.

Red's recommendation to the ESC is therefore to retain the current simple rule that estimated bills will be subsequently revised, otherwise bills are 'actual' and that no reference to other status of meter data quality in the bill need be communicated to customers.

In terms of defining when an estimated bill must be issued, Red supports the ESC's recommendation that if 5% or more of intervals within a billing period are estimates, the bill must be defined as an estimate. If less than 5% of intervals are estimated however, Retailers should be free to make a commercial decision whether to define the bill as an estimate, thereby committing to subsequently revise it, or issue it as an actual bill and accept the risk that the bill under recovers actual costs when the meter data is revised. This decision may be influenced by the size of the customer's load for example.

Red supports the ESC's draft recommendation that the AER monitor the extent to which interval data is substituted by the Distributors. We would like this review to also include monitoring of the volume of estimated data provided to Retailers. This information should be

published at least bi-annually in the early stages of the AMI programme to build confidence amongst all other stakeholders.

4. Graphical Information on the bill (section 4.3.1)

Red is disappointed that the ESC continues to feel it necessary to define the format of a chart that must appear on every customer's bill. This approach continues to restrict Retailers flexibility to innovate, differentiate and generally work to improve the clarity of their bill communication.

Having said this, if a "one size fits all" approach is to be maintained, Red accepts the ESC's draft recommendations for the format of the chart (box, page 25). We note however that it is unclear in the proposal how a service to property charge would be allocated to provide an average daily cost for each time of use tariff over the billing period. Secondly, we assume that charting historical consumption monthly over the past twelve months would only apply to monthly billed accounts and quarterly historical consumption would be sufficient for quarterly billed customers. Finally, twelve months historical consumption is not always available to a Retailer illustrating how the bill space could be more usefully used by a Retailer on a new customer's first bill if flexibility is offered within the regulations.

5. Notification of tariff variations (section 4.3.3)

Red supports in principle a requirement that Retailers provide advance notification of any retail price changes to customers, whether triggered by metering changes or as a result of general cost pressures. Red does however take issue with the ESC's proposal that such notice should be provided one month prior to the effective date. We believe that notice in advance of the effective date is sufficient, as is the case in NSW for example.

In January 2007, Red Energy provided its customers with advance notification of price changes however reverted to the industry practice of giving notice "no later than the next bill" due to competitive pressures. Our early notification impacted our business as competitors continued to sell their current prices against Red's notified price increases only to notify them of their increase in their first bill. A coordinated industry change to this practice, driven by changes to the Retail Code will be beneficial for all consumers and should be supported by all Retailers as it will improve the current perception of the industry.

However, the new obligation on Retailers to provide advance notice should only be legislated in the Retail Code when Retailers can be guaranteed to have sufficient information to establish a customer's price change in advance of having to provide this notice. For price changes in the normal course of business, this means a firm obligation on Distributors to notify Retailers of network tariff changes two months prior to their effective date. The ESC's current proposal that Distributors provide this only in a "timely manner" to Retailers is unacceptable to underpin a change in obligations on Retailers.

Secondly, while supporting the principle that Retailers provide advance notice to customers of any price change resulting from a meter change, Red believes that firm new obligations should only be imposed when industry changes are implemented that enable Retailers to fulfil them. Currently the industry's information systems will not support this. For example, a Retailer may be unaware of a pending meter change when a new customer signs up with them (notice would have been given to the customer's previous Retailer). Standing data for the customer's premises will continue to reflect the current configuration and network tariff that form the basis of the customer's pricing offer. The new Retailer will only become aware of a meter or network tariff change when it is implemented by the Distributor. Furthermore, the Distributors are currently entitled to notify these changes in MSATS retrospectively. Without industry wide changes, Retailers should be imposed with nothing more than a 'reasonable endeavours' obligation to provide notice of price changes in these circumstances. Forcing Retailers to carry the cost of mismatches between their cost structures and pricing in

order to give customers a guaranteed minimum notice of price changes will increase risks and costs for Retailers and lead to general price pressures.

6. Enabling access to billing and metering data (section 5)

Red agrees that a customer's right of access to historical billing data should continue to be protected by the Retail Code. It is important however that the regulations do not seek to second guess customers' preferences for the format, content and delivery channel for the provision of this data. Services in this respect will be driven by customer experience and preferences and the ESC should avoid mandating delivery requirements and allow Retailers to develop initiatives in response to customer demand.

Red agrees that all customers should be entitled to the basic provision of data once per year, but at cost reflective pricing. Retailers should be entitled to charge a fee that meets the cost of this service to ensure that demand is genuine and that the service is not over used thereby increasing Retailers' general costs and placing upward pressure on prices. Cost reflective pricing for this basic service will ensure a more efficient outcome for all consumers.

We envisage that Retailers may start to offer enhanced meter data services to their customers, beyond the minimum provision of billing data. This might include online services that not only offer access to the basic bill data, but assist the customer to analyse it, for example aggregating consumption by time periods, charting consumption patterns, providing comparisons to previous bill periods, allowing the customer to compare costs under alternative tariffs etc. If these sorts of more valuable services are to develop, Retailers will need the ability to price and market them appropriately. In our view there is a risk that these enhanced services and the customer education that goes with them could be crowded by overzealous regulations that impose free access to bill data.

7. Remote connection, disconnection and reconnection (section 6)

Red Energy supports the ESC's proposed amendments to the Distribution Code to impose a best endeavours obligation on the Distributors to perform remote connection, disconnection, reconnections within a two hour window of the request being lodged. This was one of the core functionalities of the meters, the benefits of which underpinned the economics of the AMI programme. Red welcomes the ESC's efforts to help ensure these benefits are delivered to customers. It is also important that current Excluded Service Charges that allow Distributors to charge for these services on the basis of the costs of a site visit are abolished.

The draft decision on proposed amendments to Clause 13.2 of the Retail Code appears to impose additional obligations on Retailers prior to remote disconnection of customers that may be in hardship. The suggestion that a Retailer *must* contact these customers prior to remote disconnection imposes an unreasonable hurdle on Retailers as customers could use this provision to avoid contact with their Retailer and therefore avoid disconnection.

We dispute any suggestion that the mode of disconnection (remote rather than a site visit by the Distributor currently) should change existing obligations on Retailers to use their best endeavours to contact possible hardship customers in debt prior to disconnection. These current provisions already require the Retailer to make a site visit to the customer within a 60km radius of Melbourne if they are unable to be contacted by phone. Any new obligation that the customer must be contacted prior to remote disconnection is likely to result in many wasted additional attempts to meet the customer in person, imposing excessive additional costs on all the Retailer's other customers.