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Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW, 2001

Dear Ms Collyer

Re: Directions paper – review of the regulatory framework for metering services

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) 'Review of the regulatory framework for metering services' directions paper. The AER considers it is timely to provide its views at this stage given the AEMC has recommenced the review. The purpose of this submission is to highlight some key principles that we consider should inform the AEMC's development of reforms to accelerate the deployment of smart meters.

The AEMC's directions paper highlights that higher penetration rates of smart meters will be a critical factor in enabling future market services and efficient investments that will ultimately contribute to reduced costs for consumers. We agree with the AEMC that accelerating the current rollout is critical if the benefits of smart meters are to be realised in a timeframe that supports the energy transition. We strongly support reforms to the metering framework that will achieve this objective.

Because smart meters provide more granular consumption information, they can facilitate better price signals and tailored tariffs, providing benefits to stakeholders across the energy supply chain. With clear price signals and more dynamic and targeted tariffs enabled through smart meters, consumers may benefit from more control over how and when they use electricity, such as shifting their electricity consumption to times of the day when it is cheaper. This is important at a time of rising electricity prices.

Overall, they represent a key technology that combined with new energy services and tailored tariffs can help unlock the benefits of integrating distributed energy resources (DER) within the National Energy Market (NEM), which the Energy Security Board (ESB) has estimated are at around $6.3 billion over the next 20 years.

By enabling effective signals to incentivise rooftop solar self-consumption, the uptake of battery storage, and the efficient integration of electric vehicles into the power system, smart meters should also contribute to reducing peak demand growth and help to defer costly network investment, thus benefiting all consumers.

Smart meters should also help facilitate new energy services from retailers and aggregators that enable customers and owners of DER to sell their energy into wholesale markets, system services markets and to provide network services.

Network businesses will also directly benefit from the provision of more granular usage information that should help manage network constraints and curtailment risks. This information should also assist network businesses in making decisions about how they manage congestion and constraints, including through network investment or network services agreements. In addition, networks will also benefit through having increased visibility of life support customers.

Smart meters should help facilitate new energy services from retailers and aggregators that enable customers and owners of DER to sell their energy into wholesale markets, system services markets and to provide network services.

In addition, smart meters are an important enabler for technologies that can provide information to customers regarding their energy use, and which can in turn help to drive energy efficiency and assist energy customers in saving money.

We note that many of the customer benefits described above accrue collectively but may not be perceived as benefits (and indeed may be seen as costs) by individuals.

Cost benefit analysis

The AEMC's direction paper seeks stakeholder views on policy options to accelerate the smart meter roll out by better aligning incentives, reducing installation barriers and appropriately allocating costs between parties. These include imposing targets or backstops for smart meter installation on retailers.

To comment on the merit of specific options to accelerate the smart meter roll out, including targets or backstops, stakeholders require an understanding of the relative costs and benefits to retailers, networks, technology providers and consumers and the system. Therefore, we would encourage the AEMC to undertake an assessment of options to give stakeholders confidence that any policy response balances the relative risks and benefits, and is in the long-term interests of consumers.

While a faster smart meter roll out would mean the benefits identified are realised sooner, an accelerated roll out creates risks for consumers if appropriate safeguards are not in place. For example, consumers face financial risks from being placed on inappropriate cost-reflective tariffs without support and guidance to benefit from these. An accelerated roll out may also result in higher costs if it results in supply issues, or because of delivery risk.

As part of the analysis, we would encourage the AEMC to consider a broad range of options to accelerate the smart meter roll out. This could include consideration of distribution network service providers (DNSPs) playing some role in the roll out, particularly to assist in achieving a significant acceleration within a short period of time. DNSPs have existing technical capacity, and incentives to access smart meter data for use in planning and operations at a network-wide and local level, and may also be able to achieve cost efficiencies by focusing installation resources in a particular local area. In this context, a possible DNSP role could be trialled at the local level where a high penetration of smart meters would provide significant network benefits.

We further note that some of the AEMC's recommendations envisage an expanded enforcement and compliance role for the AER in regard to smart meters – for example, regulating the power quality data access framework, enforcing retailer compliance with targets, as well as the implications of more faulty meter replacements. Given the potentially significant resourcing implications for the AER, these issues should also be considered in detail. We would be willing to work with the AEMC to discuss these resourcing implications.

Cost allocation

We agree with the AEMC that developing an appropriate cost allocation model will be a critical component of accelerating the rollout in a way that shares the costs among parties that benefit. The AEMC has proposed options to change how costs are allocated to better align the incentives for market participants.

We consider it is important that any allocation of costs should recognise that a substantial portion of the benefits that flow from higher penetrations of smart meters are system benefits, rather than individual customer benefits.

Consistent with the market-wide nature of these benefits, we encourage the AEMC to consider approaches under which a proportion of costs are recovered from the market as a whole, rather than directly from individual consumers. A number of models may potentially allow this, including regulated costs or customer subsidies.

Unlocking consumer benefits of smart meters

Consumers can benefit in several ways from smart meters. Smart meter technology enables consumers to purchase energy services that enable them to benefit by modifying their energy use in response to price signals, potentially reducing their bills.

Smart meters should also facilitate new and innovative energy products and services provided by retailers and aggregators that enable them to remotely control equipment on the customer's side of the meter to provide agreed service levels and reduce the consumer's energy bill.

In addition, as noted above, smart meters can help consumers access information on their energy usage levels which can help drive energy efficiency.

However, while the increased control and visibility provided by smart meters creates the potential for consumers to benefit financially, it should not be assumed that individual consumers will automatically benefit.

For this to occur, many consumers will need support and guidance to develop the capability to understand and respond to these signals. In addition, for those products that require active consumer responses, customers will need to both be able and willing to respond to price signals.

We highlight that some consumers' ability to respond to price signals will be constrained for a range of reasons. These may include factors that affect consumers' ability to understand the signals, such as language barriers and complexity. Many consumers not be in a position to change their energy usage behaviour, and time of use and other flexible tariffs have the potential to expose these customers to increased energy costs.

Consumer-inclusive design should be promoted that so that the marketing and design of new products is targeted to the needs of the customers that the products are being sold to.

To address these issues, the regulatory framework for smart meters must balance the need for price signals with appropriate pricing structures, protections, and guidance for consumers. While some of these issues are broader than the scope of the review, we encourage the AEMC to consider measures that ensure consumers have the ability to benefit from the accelerated smart meter roll out, and that the roll out can address the needs of all consumers.

The British government's retailer-led smart meter roll out approach provides some potential elements to consider in the Australian context. For example:

- All residential customers are offered in-home displays providing real-time usage information. Installers are required to offer advice and guidance to assist customers understand their usage and act on it.

  While we are not advocating in-home displays specifically, providing consumers with tools to understand their usage, supported by guidance and advice, should be a key part of the accelerated roll out. The types of tools employed should reflect consumer preferences and, in our view, should be informed by behavioural insights.

- A national campaign, including a website, explaining the need for smart meters and highlighting the benefits, with key messages addressing consumer concerns and question around costs, installation and choice.[1]

If you have any questions or wish to discuss this submission further, please contact Simon Kidd, Assistant Director, Policy Development team at simon.kidd@aer.gov.au or on 03 9290 1913.

Yours sincerely

Jim Cox
Deputy Chair
Australian Energy Regulator

Sent by email on: 27.07.2022

[1] see https://www.smartenergygb.org/