Submission to the AEMC's Review of the Regulatory Framework for Metering Services

Reference: EMO0040

Heather Merran, South Australia **9 February 2023**

I have worked as a program coordinator at UnitingCare Wesley Bowden's state-funded Utilities Literacy Program (ConnectEd) for nine years. In this role, I provide training to the community sector and support to colleagues and vulnerable consumers regarding household electricity affordability issues. I also provide a community-sector perspective to several electricity system refinement processes. I previously delivered a four-year home energy audit program to low-income householders in the western suburbs of Adelaide, and I have been observing the introduction and impacts of electricity system reforms since the early 2000s. I make this submission as an individual, drawing on my professional observations and experience.

In general, I accept many of the arguments in the Draft Report of the "Review of the regulatory framework for metering services" that universal use of Smart (Type 4) Meters can provide valuable services to the various stakeholders in the electricity system.(1) However, in my observation, the concurrent major reform affecting consumers, and dependent on smart metering, the introduction of cost-reflective pricing, holds risks for consumers which should not be ignored.

The accelerated rollout of smart meters cannot be considered separately from the forced reassignment of customers to retail Time of Use tariffs. This is central to the customer experience of metering upgrades, and therefore, most of my comments relate to Section C of the Draft Report.

Some benefits not available to vulnerable consumers

A number of the benefits to consumers that were imagined in 2015, before the "Expanding competition in metering and related services" rule came into effect, are much less likely to be available to low-income, economically vulnerable consumers.(2) While they may see lower network costs, more accurate bills based on actual reads, quicker switching of retailers, and informative fine-grained data available through an app, the lowest income consumers are less likely to have access to solar and battery services, or smart appliances that can automatically manage their electricity use. Significantly, some of the most vulnerable low-income consumers will really struggle to gain a personal benefit from Time of Use (ToU) tariffs – but have no choice about tariff type.

Change to a smart meter results a retail Time of Use tariff, with no option for Single Rate tariff

"Cost-reflective pricing" rules apply to the relationship between the distribution network service provider (DNSP) and electricity retailers, but not to the relationship between retailers and their customers. Cost-reflective pricing requires smart metering.

In response to the cost reflective pricing rule, the South Australian DNSP, SA Power Networks, had by 1 January 2022 reassigned all (or very nearly all) residential smart meters in South Australia to a ToU network tariff, and closed the single rate network tariff to Type 4 and Type 5 interval meters. By default, the installation of a new smart meter at residential premises triggers the reassignment of the connection to Residential ToU (RToU) network tariff. As the roll-out of smart meters progresses, customers will increasingly be reassigned to RToU network tariff.

There are eight electricity retailers in South Australia with greater than 1% of the customer pool; together, they hold 95.6% of South Australian electricity customers.(3) I called them this week, and confirmed that they all share the policy of placing customers with RToU network tariff on a ToU retail tariff. Several explained to me that this position is out of the retailer's hands, and has been forced by the DNSP. There is considerable lack of clarity regarding this policy – in some instances, call

centre staff initially provided advice that choice *is* possible, though it later became clear that this is not the case. Further, the AER's comparison website energymadeeasy.gov.au shows both ToU and single rate offers when the "smart meter" option is chosen, and states that single rate offers are "Available for premises with a Smart meter or Basic meter", though there may also be a vague disclaimer about "applicable network tariff" under the "Terms and conditions" heading.

Some call centre staff advised that customers can, through their retailer, request reassignment to a single rate. This is not correct; they can request another open tariff: the Residential Prosumer network tariff, which incorporates time of use usage tariffs plus a monthly kW demand tariff; or the Residential Electrify network tariff, which includes time of use tariffs with a more expensive (2.13 times single rate price) though shorter peak.

The retailers' insistence that the DNSP is responsible for the inescapable imposition of ToU retail tariff is not correct – retailers are free to package network tariffs with wholesale tariffs into retail tariffs in any way that covers their risks and is attractive to potential customers. However, in practice, as of this week, the retailers surveyed do not offer a non-ToU contract where SA Power Networks charges a RToU network tariff.

Installation of a smart meter results in reassignment to a retail ToU tariff. Peak prices apply for 14 hours daily, 6am to 10am morning and 3pm to 1am evening. Analysis of a selection of ToU retail offers published on energymadeeasy.gov.au shows peak prices of 106% to 122% of single rate contract price; 37.46 c/kWh to 47.36 c/kWh.

SA Power Networks no longer provides an opt-out from RToU network tariff for retailers, and South Australia now has the highest proportion in the NEM of smart meter customers on a retail ToU contract. (SA 75%; NSW 50.5%; Tas 40%; Qld 26%; ACT 8.7%. Vic stats not published here.)(3)

In practice, accelerated smart meter rollout means accelerated tariff reassignment. Currently, the only way that a small customer can choose not to have a retail Time of Use tariff applied is to opt out of installation of a smart meter. The draft report (B.1.3) proposes to remove that option.

Some people have significant barriers to gaining any benefit from Time of Use tariff

Research indicates that small electricity consumers are not very responsive to ToU tariffs, and that parents and low-income householders even are less responsive than others.(4,5)

This week's quick and partial price analysis showed "solar sponge" (10am to 3pm) SA ToU prices ranging from +14 c/kWh (two offers) to +32 c/kWh, with most in the low 20 c range.

However, people living in housing with poor thermal performance cannot benefit from pre-heating or pre-cooling during "solar sponge" pricing when, to remain habitable, their home will also require heating or cooling during "peak" pricing. This is particularly an issue for people living with illness, disability, or any frailty that is exacerbated by heat or cold. With the housing market as it is, people in this position have very little choice in the quality of housing that they must accept.

People who have appliances that cannot be programmed to run during "solar sponge" pricing need to be present to physically turn the appliances on or off to take advantage of cheaper electricity. If they cannot be at home during the daytime, or if they, for instance, want to use a washing line to dry a week's worth of washing, they will often be unable to run appliances during the cheaper times of day. Appliances such as washing machines and dishwashers represent major and infrequent investments for this group; upgrades to programmable appliances will take many years. Some

appliances are typically supplied in rental accommodation, where the tenant has little choice, and the landlord has little incentive, regarding their efficiency or ability to interact with a "smart network".

For the "working poor" – those people doing jobs that barely cover the necessities of life – and most particularly for those who are parents, who must be away from home during the day, at home in the evening, and sleeping at night, for whom there is little elasticity about when they need electricity services, Time of Use tariffs offer only punishment, not opportunity. Expectations that "Flexible pricing" will mean that "customers can choose an electricity plan that best suits their lifestyle" are not really realistic for such people – especially when, as shown above, retailers do not offer tariff choice.(6)

Given the purchase price, financially vulnerable people are likely to have later access to electric vehicles (charging of which can take advantage of time of use tariffs), and will be the last to benefit from "home energy management systems".

The dominant pattern of this society is that we leave home to go to work or other activities during the day, returning to run home and family in the evening. This is the reason that morning and evening peaks in household electricity use exist. Where these peaks are an inefficiency or problem for the electricity system, and require solutions, the most physically, mentally and economically vulnerable people in this society should be the last ones called on to pay for the solutions, or pushed to shift their lives to some other, minority social pattern, not the first.

Vulnerable people who cannot reasonably shift their use away from 14 hours/day peak pricing periods will require other assistance, some of which would be outside the scope of this review, and which could include electricity price relief or subsidy, the ability to choose a non-ToU retail contract, new appliance subsidy, requirement for rental housing to meet minimum standards of thermal comfort and energy efficiency, and meaningful increase of wage or social security income.

Retailers are not providing adequate information to consumers ahead of ToU tariff reassignment

Section C of the draft report discusses the need for customer information. Currently, no body is obliged to provide education on the most effective ways to respond to Time of Use tariff for the best billing outcome, and few people in the community have this knowledge yet, or can teach each other.

The AER's Retail performance data Q1 2022-23 shows that in South Australia, the proportion of retail customers on ToU retail tariffs (with underlying ToU network tariffs) increased from 8.8% at Q1 2021-22 to 25.5% at Q1 2022-23 (and 75% of customers with smart meters).(3) Experience indicates that this increase is driven by retailers, with customers given little choice in the matter. (This view is further confirmed by reports from customers who have requested a smart meter/Time of Use contract, and been unable or delayed to get one, due to retailer refusal/inability to install a meter for that reason.)

I have seen a few examples of notification letters to retailers' existing customers advising that they will be/have been placed on a Time of Use retail tariff, or that a smart meter to be installed may result in a tariff change. None of these letters have fully or adequately explained the new tariff – for example, time of use prices are given, but not the times of day that these prices apply – or provided advice on how to make the most of it.

My colleagues across the ConnectEd program have also reported that they have worked with multiple clients who have found themselves on a Time of Use retail contract, with minimal or no prior advice or information provided.

Any information required or provided by government or other electricity system bodies must accurately reflect the retail environment. Official publications that optimistically advise consumers that they might like to choose a Time or Use tariff if it works for them are, in the current retail environment, not providing useful advice, and neither are those that imply/assume that deep discounts in network ToU tariffs are necessarily reflected in retail tariffs.(7,8)

Those customers who have already received a smart meter should also be covered by any information provision requirements. Any assumption that they have already received or worked out what they need to know should be challenged and discarded.

DNSPs are the natural provider of mass smart electricity metering services

This review demonstrates that the shift of responsibility for metering from DNSPs to electricity retailers has not resulted in the service improvements that were anticipated. Though I have sought to understand it, the compelling reasoning behind the shift remains unclear to me, while the disadvantages (split incentives, inefficiencies, important data inaccessible and unable to be used) are very apparent. A meter is a crucial part of electricity infrastructure, and not a consumer good. The standard for the range of consumer services it can provide should apply for all installations. Therefore, the responsibility for metering should be returned to DNSPs, which stand to gain and create for the system significant benefits from a smarter network infrastructure. Accordingly, the best option for retirement of legacy meters canvassed in Section A.5 of the draft report is Option 1, led/coordinated by DNSPs; however, a better option would put DNSPs in charge of coordinating metering, and provide them with free access to the information from smart metering that they can use to improve the network for everyone.

To address the concerns of site remediation (Sections B.4 and B.5), DNSPs should also be given responsibility for remediation of site defects to allow smart meter installation, whether ultimately requiring customer contribution or not. If there is a site defect that prevents meter upgrade, and it requires remediation to a set standard, it's not an issue where "customer choice" in standard or choice of provider is particularly relevant. Remediation to standard is most efficiently achieved by a mass provider.

While the draft report considers the likelihood that some customers could be left behind due to their inability to fix defects, it fails to make explicit the difficult position of tenants. People with low income compete for low-cost rental housing. Much of this housing is old, minimally maintained, owned by landlords who spend the smallest possible amount on it, over decades. Installation of a smart meter, and any associated remediation required, represents a classic case of split incentives. The landlord derives no benefit from it. The tenant derives little immediate benefit, and may jeopardise their tenancy by asking their landlord to pay for the remediation. Unless there is a requirement upon the landlord, triggered and enforced by some entity other than the tenant, the remediation may never happen, and the various tenants of the property over time will remain excluded from the smart meter roll-out.

Even where government accepts the need to provide assistance for customers in vulnerable circumstances, if the electricity customer meets the criteria but their landlord does not, the above

split incentive continues to apply. It is likely that any significant work at a site will require the landlord's approval, at least, if not financial involvement. The landlord could prevent installation of a smart meter at their property simply by inaction, by failing to engage.

The potential for site remediation blockage becomes even more complex in a multi-occupation site scenario, where there may be a mix of owner-occupiers and landlord owners, of varying financial capacity, coordinating via a strata corporation.

This difficulty is overcome if the responsibility for metering, meter installation, and for remediation of legacy meter boards, is returned to DNSPs. If customer financial contribution is preferred/required, potential blockages from this could be minimised by collecting the contribution over time through the network bill.

Alternatively, state jurisdictions will need to amend minimum housing standards and/or tenancy law to require landlords to facilitate timely site remediation and installation of smart meters. To avoid negative impacts on tenancies, this requirement will need to be policed by some body other than the tenant.

Recommendations:

1. To bring the advantages of smart metering to the system and to all consumers, accelerate the roll-out of smart meters.
2. To gain the maximum benefit from smart metering, place responsibility for the accelerated, efficient roll-out of smart metering with DNSPs.
3. To reduce exclusion from the metering upgrade, place responsibility for site remediation with DNSPs.
4. To ensure that consumers can gain maximum benefit from smart meters, require excellent education and information to be provided before and after installation.
5. To respond appropriately to negative consumer experience of smart metering, recognise that current retailer policy is to reassign meters with cost-reflective network tariffs to similar retail pricing, without offering any choice in this to consumers.
6. To reduce consumer hardship and stress, ensure that consumers can continue to choose a simple, traditional flat rate retail contract where this option works better for them; and that consumers can move from simple to complex to simple contracts as their circumstances dictate. At the least, this must be available to consumers in vulnerable circumstances, but it should be available to all consumers. It may be necessary to place a requirement upon retailers.

References:

1. https://www.aemc.gov.au/sites/default/files/2022-11/Draft%20report.pdf
2. https://www.aemc.gov.au/sites/default/files/content/29328539-8eb5-4c34-952d-2a44ab5d12c5/Information-sheet-consumer-benefits.PDF
3. https://www.aer.gov.au/retail-markets/performance-reporting/retail-energy-market-performance-update-for-quarter-1-2022%E2%80%9323
4. https://vuir.vu.edu.au/40599/1/200612%20TOU%20tariff%20paper.pdf

5. https://doi.org/10.1016/j.enpol.2022.113295
6. https://www.aemc.gov.au/sites/default/files/2022-11/4257_AEMC_Metering%20Services%20Infographics_Final_Hires_0.pdf
7. https://www.energymadeeasy.gov.au/article/electricity-tariffs/
8. https://www.energymining.sa.gov.au/consumers/energy-contracts-billing-and-rebates/time_of_use_tariffs

If you have any questions in relation to this submission, please contact Heather Merran by email at heather.merran@ucwb.org.au

Heather Merran

9 February 2023