

**Network of Illawarra Consumers of Energy
Metering Review: Response to the Draft
Report
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Network of Illawarra Consumers of Energy

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Introduction

NICE

The Network of Illawarra Consumers of Energy (NICE) is a newly formed informal network advocating for the energy transition to a net-zero carbon future to be managed with the interests of consumers at heart.¹ This necessary transition must occur at least cost to consumers while maintaining the reliability and security of energy services, appropriate consumer protections for essential services and a just transition for affected workforces.

We believe there is a role for regionally-based advocacy within the context of nationally consistent energy policy. The choice and options for energy supply differ by geographic region, regarding different climatic conditions affecting demand and supply options and different risk factors impacting resilience planning. This submission has been prepared by David Havyatt, the sole author.²

Overview

We appreciate the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Review of the Regulatory Framework for Metering Services: Draft Report* of November 2022 (the Report). We support the AEMC conclusion that the roll-out of smart meters needs to be accelerated and that the data from meters, especially real-time data such as voltage.

We submitted in response to the initial Consultation Paper of December 2020 but not on the Directions Paper. We addressed two issues in our first submission that have not been addressed in the Draft Report and that we would like to resubmit.

We do not agree with the implication that the success of a smart meter roll-out requires all consumers to face cost-reflective retail prices; such prices are only valuable when faced by consumers who can do something as a consequence. Other consumers remain better off on a flat rate price that insures them against movements in market prices or network costs. Of course, retailers must face cost-reflective network tariffs, but it is not necessary to have 100% smart meter coverage to allow that.

The astute reader will have noted that we reserve the word "tariff" to the charges networks levy on retailers, and we use the term "prices" to refer to the charges retailers levy on consumers. This usage is more consistent with the inherent construct we favour – retailers should have no choice about the tariff structure, but consumers should have a choice between price structures.

We are also disappointed in the AEMC's continued faith in the retail competition model. Retailers have shown themselves reluctant to embrace retail prices combined with tools to move or shave consumption peaks. While some small retailers now do combine these functions, the prudential requirements for being a smart energy retailer create a significant barrier to entry.

¹ The network has not yet started actively recruiting participants.

² Mr Havyatt was employed as Senior Economist at Energy Consumers Australia from October 2015 to August 2020. For the avoidance of doubt, nothing in this submission is the position of Energy Consumers Australia.

For this reason, we believe there needs to be a new category of participant in the broader market, the Smart Energy System Service Provider. This entity would be regulated and provide consumers services to respond to market price signals, but would not be the retailer. The regulation must empower them to select the retailer on the consumers' behalf and be responsible for choosing the Metering Coordinator.

In addition, we find it disappointing that the AEMC has remained silent on the challenges presented to programs like the roll-out of smart meters by the fragmentation of the regulatory framework. For example, the Victorian Advanced Metering Infrastructure program was initiated as a jurisdictional plan despite the prior agreement of the Collective of Energy Ministers³ to a national program. Furthermore, the non-adoption of the NECF in Victoria and the lack of effort to harmonise electrical safety regulations have meant that notionally national metering programs result in bespoke implementations by State. These differences create additional costs for retailers that are passed on to consumers while also working as additional barriers to entry.

The final report should include a reminder to Ministers of their earlier decisions, in response to both the Vertigan review of governance and the Finkel review of system security⁴ to recommit to a national system through a new Australian Energy Market Agreement.

We will respond to questions 6, 7, 11 and 12 in more detail. We have no response to any of the other questions. We conclude the submission with an outline of a possible rule change request to give effect to our answer to question 12.

³ We use the term "Collective of Energy Ministers" to refer to the collective of energy ministers that has previously gone by the names of the Ministerial Council on Energy, the Standing Committee on Energy and Resources, and the COAG Energy Council but as of May 2020 became both the National Cabinet Energy Committee and the Energy Ministers Meeting.

⁴ Vertigan, M, Yarrow, G & Morton, E 2015, *Review of Governance Arrangements for Australian Energy Markets Final Report*. and Finkel, A 2017, *Blueprint for the future : independent review into the future security of the National Electricity Market (Expert Panel on the Independent Review into the Future Security of the National Electricity Market)*, Department of the Environment and Energy, Canberra.

Response to consultation questions

Question 6: Feedback on No Explicit Opt-Out Provision

1. Do stakeholders have any feedback on the proposal to remove the opt-out provision for both a programmed deployment and retailer-led deployment?

Only to state we support the removal of the opt-out provisions on installation.

2. Are there any unintended consequences that may arise from such an approach?

There are undoubtedly unintended consequences. However, today's situation is very different from that in the early part of the millennium. Overall, concerns about electromagnetic energy and health have largely dissipated. Similarly, understanding the relative importance or usefulness of energy data on its own has reduced privacy concerns.

Question 7: Removal of The Option to Disable Remote Access

1. Do stakeholders consider it appropriate to remove the option to disable remote meter access under acceleration?

Yes

Question 11: Supporting Metering Upgrades on Customer Request

1. Do stakeholders support the proposed approach to enabling customers to receive smart meter upgrades on request?

No. The AEMC errs in assuming that only one possible kind of smart meter could be installed. A Smart Energy System Service Provider may wish to include in the meter itself additional communication services (e.g. to acquire data directly as well as the data provided to the Meter Data Provider) or to exercise some controls. This functionality is part of the potential smart energy system offering.

As we have noted, retailers are not innovative and are unlikely to lead the smart energy system provider. Our solution to the problem is to create a category of market participants who can appoint the Metering Coordinator, specify the meter type, and select the retail plan for the customer.

Question 12: Tariff Assignment Policy Under an Accelerated Smart Meter Deployment

1. Which of the following options best promotes the NEO:

- a. **Option 1: Strengthen the customer impact principles to explicitly identify this risk to customers.**
- b. **Option 2: Prescribe a transitional arrangement so customers have more time before they are assigned to a cost-reflective network tariff.**

c. No change: Maintain the current framework and allow the AER to apply its discretion based on the circumstances at the time.

The significance of cost-reflective tariffs is to ensure that retailers are exposed to the entire set of time and demand variable costs. The intention is to ensure that just as the retailer is exposed through the wholesale market to the cost of acquiring energy to satisfy peak demand, they are also exposed to the network costs of satisfying peak demand.

The biggest failure of the Power of Choice Rules on Tariff Structure Statements (TSS) was the requirement that the TSS needed to consider the consumer impact of the tariff. The counterpart would be the suggestion that the wholesale market needs to be designed to assess the consumer impact. While there are some controls on the wholesale market for these purposes, such as the price cap, these are carefully calibrated around the need to meet the reliability standard (and are very high by global standards).

This single requirement has led to the greatest difficulty in implementing cost-reflective tariffs, simply because it is impossible to assess the impact without knowing how the retailer will incorporate that variable cost along with the variable cost of energy in their price structures.

It is the existence of this provision that the AEMC relies on for its belief that customers assigned to a cost-reflective tariff must automatically face a time or demand variable retail price. A complete alternative framework is an option, the retailer must face a genuine cost-reflective tariff (not one softened by concerns on consumer impact), and because of the smart meter, the retailer can offer the consumer one or more variable price plans but must offer a flat rate plan and at least one time or demand variable plan.

Ideally, a more thorough review of the retail arrangements would create the concept of a single default retailer for a distribution area required to offer a flat rate plan, with the role of that retailer being allocated by auction periodically (say every three years). Without this more fundamental reform, all retailers should be required to offer a flat rate plan. Retailers will compete just as vigorously for customers who want a flat rate plan as those who want a variable plan.

The reframed version allows for an innovation that will increase the incentives to identify consumers who could benefit from price options that would reward them for moving or reducing load. This innovation is to charge retailers a time-of-use tariff for all customers connected to the network. In this model, each customer with an interval meter is assigned an assumed consumption profile based upon the residual profile for their zone sub-station after deducting all the smart meter customers.

Retailers will not be allowed to use these profiles for billing purposes, only to determine the network cost for each connection point. This will result in retailers identifying higher cost interval meter customers in zone substations with higher peaks – exactly where we most want retailers and smart system service providers to make available offers that reward customers who move or reduce their load.

2. Under options 1 or 2, should the tariff assignment policy apply to:

a. all meter exchanges – for example, should the policy distinguish between customers with and without CER?

b. the network and/or the retail tariffs?

Not relevant.

3. What other complementary measures (in addition to those discussed above) could be applied to strengthen the current framework?

As noted in the Draft Report, a consumer with a smart meter installed has no granular consumption data to submit to a price comparator to consider which retail offer will best suit their current consumption pattern. Therefore, it is illogical to require these customers to choose a retailer in these circumstances.

Proposed rule change

There are several places in which the Rules need to be changed to give effect to our recommendation rule changes required to give effect to our response to question 12.

The removal of the requirement for the DNSP to do the impossible, that is, to understand the customer impacts of charges they levy on retailers, is straightforward. It requires the deletion of clauses NER 6.18.5(h)&(i). Insert a new NER 6.18.4(3) that specifies that retail customers must be assigned to a tariff class that results in the retailer for that connection point being charged a time-of-use tariff based on the residual load profile of the zone sub-station to which the customer is connected.

NERL 36 should be completely rewritten because it confuses tariffs and prices. Assuming it is rewritten to require the customer's retail plan to be changed as a consequence of the change of tariff type, insert a new 36(2) that states, "where a customer changes from one type of tariff to another type of tariff, if the customer's previous retail plan charged a flat or block rate for electricity consumed, if feasible, the customer must remain on that pricing plan". Add a new 36(3) "where a customer has an interval meter, irrespective of their tariff type, they must only be offered flat rate or block pricing plans". Renumber existing (2) and (3) to (4) and (5), and delete "does not apply" and insert "applies" in (5).

Conclusion

We should not be perpetuating a sub-optimal approach to how retailers are charged for network services based on the incorrect assumption that there is any reason why retail price structures should reflect only the cost of network services in their variable component.

We understand that networks were reluctant to develop cost-reflective tariffs and mounted a case that the effort was only worthwhile to the extent that retailers "passed them on". However, the assumption that they would be passed on resulted in the unwise inclusion of a requirement that the impact on consumers of the tariffs is considered in the development of the TSS.

The objective of the reforms in Power of Choice wasn't to legislate the choice for consumers; it was to further increase the incentives for retailers to become innovative in price. Unfortunately, when the report was completed nearly a decade ago, it was premature; few resources enabled consumers to take full advantage of innovative price plans that would reward load flattening or shifting.

In accelerating the roll-out of smart meters, the critical element is increasing retailers' incentive to innovate. This requires a reconsideration of some fundamental aspects of the implementation of cost-reflective tariffs.

The value of smart meters doesn't come from the number of customers with them; it comes from the number of customers who can respond to the information they provide.