Our Ref: D21039908

Ms Anna Collyer
Chair
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms Collyer

Draft Report of the Review of the Regulatory Framework for Metering Services

The Energy and Technical Regulation Division (the Division) of the South Australian Department for Energy and Mining thanks the Australian Energy Market Commission (AEMC) for the opportunity to comment on its Draft Report of the Review of the Regulatory Framework for Metering Services (AEMC Draft Report).

Accelerating the roll out of smart meters

South Australia is committed to an orderly transition of our electricity supply to net 100 per cent renewable. For an orderly transition, reliability outcomes must be preserved, and competitive prices delivered. Achieving an orderly transition will require changes in the both the supply side and demand side of the market.

Smart meters are a critical enabling tool for this transition:

- The data provided by a smart meter is essential for informed consumer choice about their electricity use and technology
- The data provided by a smart meter can assist distribution network businesses to better integrate distributed energy resources and increase their ability to host such resources
- Smart meter functionality can dynamically optimise customer electricity use with household generation and incentives.

The competition in metering framework reforms favoured a market-led deployment based on arguments that competition, as opposed to regulation, is more likely to drive innovation in products and services and facilitate the deployment of advanced meters and services to consumers at the lowest possible cost. However, the Division has been disappointed at the speed with which smart meters have been rolled out to small customers to date.

Energy and Technical Regulation Division
Level 4 11 Waymouth Street Adelaide 5000 | GPO Box 320 Adelaide SA 5001 | DX452
Tel (+61) 08 8226 5500 | Email DEMEnergyMarketReform@sa.gov.au | www.energymining.sa.gov.au
ABN 83 768 683 934

SOUTH AUSTRALIA

As a result, matters critical to helping customers optimise their electricity use are only in their infancy, including:

- innovative tariffs and plans rewarding customers for managing their demand
- options for dynamic optimisation of electricity use.

The smart meter roll out is therefore being driven by regulatory requirements associated with new and replacement meters (new dwellings and faulty meters) and the installation of distributed energy resources.

Noting our early comments regarding the importance of smart meters to consumers and the electricity sector in the transition of our electricity supply, the Division supports regulatory intervention to accelerate the smart meter roll out where there is clear benefits to the consumer.

As you would be aware, the national energy crisis over the past 12 months has led to increases in the retail price of electricity in the National Electricity Market, with further large increases forecast in the upcoming Default Market Offer.

Price increases of the scale being discussed are completely unacceptable to the community and will have significant adverse impacts on households and businesses, worsening pressure on the cost-of-living crisis, reducing real disposable income and impacting economic growth.

It is through this lens that the proposed acceleration of smart meter deployment should be ultimately assessed.

The Division notes that the Draft Report states that customers' bills could increase in the short term because of the accelerated deployment of smart meters. The independent consultant's findings suggest a period of negative net benefits in the initial 5 years of implementation, given more costs are incurred under the accelerated rollout as compared to the business-as-usual approach. Once the accelerated rollout program has been completed, net benefits accrue year-on-year, as expected. Given the current cost of living pressures are likely to continue in the near future, the Division queries whether the proposed acceleration is the optimal approach and whether there is an alternate rollout that minimises the impact on customers.

The report also notes that the acceleration will deliver several benefits to DNSPs and retailers, which should flow through to customers in the short term and offset the cost impact of bringing forward the new meter payments. However, the extent and timing of these savings cannot be guaranteed and may be of little relief to customers already experiencing payment difficulties.

It is noted that the independent consultant's analysis did not consider the allocation of costs and benefits between relevant parties. They noted that the financial impacts on the customer will depend on how the benefits of smart meters flow to the customer, including the impact on meter reading costs, distribution tariff reductions and the extent cost-reflective tariffs are responded to. While all costs ($21.6m in SA) will likely flow through to impact consumers bills, it is less likely that all benefits ($46.9m in SA for primary non-contingent benefits) will.

Given the recent price rises experienced by electricity consumers, the distributional impacts of the financial transfers are vitally important considerations in the final policy development.

It is also noted that the consultants have used a WACC of 5% and a modelling period of 20 years. However, if a 7% WACC is used, the results decline, from a net benefit of $46.9m to $34m for South Australia (and presumably less without the selected additional benefits modelled). With interest rates increasing over the past 12 months, and likely to continue, the risk of a higher WACC could be a possibility over the modelling period, which would further reduce any net benefits.

Finally on this matter, the independent consultant's assessment suggests a significantly lower net benefit in South Australia from the accelerated deployment compared to other jurisdictions. We consider a couple of the stated reasons for this require further explanation.

Regarding the business-as-usual case findings, while the detailed approach taken by the consultant is acknowledged, reaching a universal or near universal level of smart meters in 2041 seems later than expected given current replacement rates.

The Australian Energy Market Operator's (AEMO) data in January 2023 suggests that there are around 340,000 smart meters in South Australia. They are predominantly type 4 meters. Additionally, the AEMO data suggests that just under 717,000 type 6 meters remain in South Australia, with this number decreasing by around 6,000 per month (on average over the past 2 years). At this rate nearly all type 6 meters would be expected to be replaced in around 10 years. While noting this is a simple example and replacement rates can vary for several reasons, this seems a vastly different timeframe than 2041 as provided by the consultants and could alter any cost benefit analysis presented. It is also worth noting that other results, such as a near universal rollout in Queensland by 2036 seems more accurate compared to recent replacement rates, which brings the South Australian results in to further question.

The report also notes that one of potential benefits of the accelerated deployment to DNSPs and retailers, which should flow through to customers in the short term, is that metering parties' installation costs (per unit) are likely to be reduced due to the greater efficiencies achieved from replacing meters by geographical area, as opposed to on an ad-hoc basis.

The AEMC's report (pg 128-9) refers to modelling results which may require further clarification and are not explained in the consultant's report provided.

It suggests that the proposed acceleration target would benefit consumers through achievement of economies of scale from installing meters by geographical area, and while this more than offsets the costs brought forward under an accelerated deployment in New South Wales/ Australian Capital Territory and Queensland (total benefit of $7.18m and $20.8 million respectively), it does not do so in South Australia (total *cost* of 10.3 million).

The explanation provided suggests South Australia does not achieve the same level of benefits as the other jurisdictions because SAPN's reported meter read and remote disconnection costs are lower than the other jurisdictions. It is unclear how these costs relate to the costs of installing meters geographically. The Division questions if this explanation is more relevant to the previous point in the report regarding avoided meter reading costs and, if so, whether South Australia would see additional benefits from a geographic rollout as other states do and if this impacts the cost benefit results.

These matters aside, should the AEMC pursue the recommendation to accelerate deployment of smart meters, of the potential options canvassed in the Draft Report the Division supports in principle the legacy meter retirement plan option. The Division notes that this option would involve an industry-developed plan being developed. DNSPs would progressively retire legacy meters. Retailers and meter parties would be required to replace these meters within a 12-month time frame. The Division notes the AEMC's comments that this will essentially lead to yearly replacement targets being in place, as this replacement timeframe will align with the annual batch release of the retired legacy meters. The Division understands that retailers would report on their performance in undertaking meter replacements on a regular basis.

Having interim timeframes and compliance checks is more likely to enable successful acceleration in smart meter deployment. This option provides greater certainty that the meter replacement rate increases relative to the current business as usual rates. The annual obligation, however specified, ensures some acceleration occurs from the outset, and that the retailers and meter parties do not delay replacing meters.

The Division agrees with the AEMC's comments that having a high-level industry developed deployment plan at the start of the acceleration period would provide greater certainty and clarity to the parties involved. The Division believes that this plan can result in efficiencies in the retirement of legacy meters and their replacement with smart meters. For example, meters in whole geographic areas can be retired and replaced at the one time.

Opportunities to unlock further benefits for customers and participants

The Division agrees with the AEMCs assessment that the current arrangements for negotiating and utilising power quality data that the meter can provide are inefficient.

There is already evidence that power quality data will be essential for some networks to be able to successfully integrate high penetrations of distributed energy resources. This is coupled with continued consumer interest in installing distributed energy resources to manage their electricity costs and contribute to addressing climate change issues.

A recent trial by SA Power Networks, supported by the government's Demand Management Trials Program, established that voltage data from smart meters can be used where there is limited network visibility to maintain or improve customers' power quality and increase the amount of solar that can be connected to the network.

It would be inefficient for distribution businesses to install their own technology due to inconsistencies in the availability, quality, and timeliness of power quality data.

At a fundamental policy level, whilst there is competition in metering, once a meter is installed at a consumer's site, data access is essentially being sought from a monopoly. Given retailers engage the Metering Coordinator, there is a risk that these arrangements may act as a barrier to third party data access.

The AEMC should consider including some regulatory protections to ensure availability and efficient access to power quality data. Whilst the Division considers that a negotiation framework may be appropriate to obtain such data, consideration should be given to data standards, price regulation and dispute resolution.

Supporting customers through the transition

The Division supports the following AEMC Draft Report recommendations to improve customer experience and satisfaction with the AEMCs 2030 rollout target:

1. the expansion of information required to be provided to customers from their retailer before the meter upgrade takes place,

2. the development of a smart energy website to provide a single location that contains customer-friendly information regarding smart meters and accelerated deployment.

Consumer safeguards such as these will be important additions to the framework to ensure customers are well informed and can realise the benefits of their smart meter.

We consider the development of a smart energy website to be a sensible addition to provide consumers with a single point of information on smart meters and the accelerated deployment.

While supportive of better information being provided to consumers, the Division queries whether the removal of one of the current notification steps is appropriate, particularly as the AEMC states (pg 77) that feedback from the Directions Paper identified a lack of upfront

information to customers as a key issue faced under the current framework. The South Australian Government receives a number of Ministerial letters from smart meter customers, raising issues with not having enough notice about their smart meter installations, or that communication has been limited to a letter advising that meter works needed to be undertaken, with no clear message that the retailer will be installing a brand new smart meter that will result in changes to their accounts.

In combination with the AEMC's proposal to send this one-off retailer information notice between 10 and 60 business days before the proposed replacement date, the Division questions whether this could result in a customer having sufficient time to understand their rights and responsibilities regarding the installation (including regarding remediation), to assess potential upfront costs or changes to its retail contract arrangements including tariff changes (and potentially consider switching retailers if it is not happy with these new arrangements) as well as understand ways in which the new meter could benefit the customer.

On the other end of the timescale, it is possible that a customer may receive notice 60 business days (3 months) prior to the meter changeover and, if there is no reminder, have forgotten about this when the installation date arrives.

While the report refers to the additional flexibility and planning the recommendation for one notice provides to retailers, it does not mention the counter argument which would be less flexibility and awareness provided to customers which is integral to the success of any accelerated rollout.

This aside, the Division supports enhancements proposed to expand the information required to be provided to customers before a meter upgrade takes place. This should occur regardless of the meter deployment type.

Regarding the proposed changes to the automatic reassignment to new tariff structures, the Division considers there are potential merits in having a transitional period whereby customers who receive a smart meter within the acceleration period are not automatically reassigned to a new retail tariff structure. This period may assist in mitigating unforeseen costs arising for these customers and it helps them make a more informed choice about how to best manage their usage and get competitive ToU market offers.

However, tariff reform is a key measure in meeting the emerging challenges of minimum operational demand in South Australia. Without action, low demand conditions represent a real risk to the supply of electricity being disrupted to all or part of the South Australian community. Increasing consumption into low demand periods was identified as an option that can assist to mitigate this emerging challenge.

It has taken a significant amount of time for reform of tariffs to be implemented. While the shift to cost-reflective pricing represented a significant change, it was determined that if these

changes weren't made there is a risk that both peak and minimum operational demand events would continue and technical issues, network infrastructure costs, and ultimately electricity prices, would continue to grow.

SA Power Networks commenced by moving customers to ToU network tariffs on 1 July 2021 following significant consultation on the network tariff structure and transition strategy, which were approved by the Australian Energy Regulator (AER). To unnecessarily restrict further progress is seen as a regressive move.

As this is one of the key benefits of a broader rollout of smart meters in South Australia, the Division questions whether the benefits of the AEMC's proposal to introduce a transitional arrangement outweigh the costs, and if alternative approaches could not be further considered.

Further, SA Power Networks has moved a number of customers with smart meters in South Australia to ToU network tariffs automatically, there will be many of these customers who have recently transferred to ToU retail tariffs. The Division seeks clarification from the AEMC about what recourse these customers would have if a transition period was introduced for future smart meter customers.

Further, the Division seeks clarification from the AEMC about whether other meter changes, not covered by the AEMC's proposed universal rollout (new and replacement meter changes), will continue to have an immediate transition to ToU network tariffs applied, or if a transitional period will also apply – noting this may result in no customers moving to ToU tariffs for the initial 12-month period.

Additionally, the Division seeks clarification from the AEMC about whether customers could still "opt in" to ToU tariffs despite any transitional arrangements.

The Division welcomes the recommendations regarding reducing delays in meter replacement. As noted in the paper, the smart meter installation process currently has several inefficiencies and barriers impacting the successful completion of meter installation attempts.

The Division agrees with the AEMCs view that the regulatory framework should give small customers the right to request a smart meter from their retailer for any reason, and that their retailer should be required to install a smart meter upon receipt of such a request. It is concerning that stakeholders have indicated that some retailers are currently refusing customers' requests to install smart meters.

Clear and timely requirements regarding installation of meters, including malfunctioning meters, should also be included in the National Electricity Rules. The Division supports implementing a practicable replacement timeframe for malfunctioning meters. We note that a

lack of adequate installation timeframes and associated penalties were a major omission from the initial new and replacement framework, with negative consumer experiences a result. The proposal for separate timelines for individual and family failures seems reasonable given the different nature of the failures and the resources required by the metering parties to undertake the replacements in each case, however the Division queries the proposed removal of the AEMO exemption process for malfunctions and its replacement with defined circumstances under which timeframes for malfunctions will not apply.

We consider this may lead to situations where a never-ending delay eventuates as there would be no defined timeframe for a malfunctioning meter's replacement, and no formal exemption process to log the issue. As many stakeholders suggested it takes longer than 70 days for meter family failures, an exemption process may still be warranted if the newly proposed requirement cannot be met.

Reducing barriers to smart meters and improving industry coordination

The Division supports in principle the AEMC's suggestion that funding support for vulnerable customers who need to carry out site remediation should be considered. The Division agrees that if these customers do not have access to smart meters, this will have efficiency and equity impacts.

However, the issue of who provides this funding support will need to be resolved, noting the implementation of these recommendations will occur across multiple NEM jurisdictions.

Additionally, the Division notes that the AEMC Draft Report does not provide any indicative average site remediation costs. An independent cost-benefit analysis covering this issue of costs would need to be commissioned before any future funding could be determined.

Finally, while the Division acknowledges that retaining the current opt-out provisions under standard retail contracts for retailer-led deployments may be inconsistent with the broader policy direction of accelerating deployment and may create confusion, it notes that this may be an option that some consumers wish to maintain.

The Division has previously received a number of complaints from consumers regarding retailers' installations of smart meters, and the fact that they have inadvertently waived their right to opt out when signing up to a market contract. For this reason, we suggest that the option to install type 4A meters remains to enable customers to have a smart meter installed but without communications.

The South Australian Government thanks the AEMC for the work on this review.

Should you have any questions in relation to this submission, please contact Mr Justin Ward, Senior Policy Officer, Energy and Technical Regulation Division, on (08) 8429 0707.

Yours sincerely

Vince Duffy
EXECUTIVE DIRECTOR,
ENERGY AND TECHNICAL REGULATION

6 March 2023