

Department of State Growth

POLICY AND STRATEGY DIVISION

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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce *John*

Expanding Competition in Metering and Related Services Draft Rule Determination (ERC0169)

I am pleased to provide Tasmania's submission to the Australian Energy Market Commission's Expanding Competition in Metering and Related Services draft rule determination. While Tasmania is generally supportive of the intent of demand side reforms, it is crucial that reforms are introduced in a way that does not increase price pressures faced by Tasmanian consumers.

There are uncertainties regarding the costs of implementing the proposed metering reforms and the benefits that may flow to Tasmanian consumers. In the absence of a clearer understanding of costs and benefits in a Tasmanian context, delayed implementation in Tasmania may be more appropriate.

The Tasmanian Department of State Growth look forward to working closely with the Australian Energy Market Commission to gain a clearer understanding of what is the most appropriate approach to the provision of metering to small customers in Tasmania.

Yours sincerely

A handwritten signature in black ink, appearing to be "AT".

Alex Tay
Acting Deputy Secretary
Policy and Strategy Division

26 May 2015

Tasmania's Submission to the AEMC Metering Rule Change

Reference ERC0169

SUMMARY

- Tasmania is generally supportive of the intent of demand side reforms flowing from the Power of Choice review carried out by the AEMC in 2012.
- Positive consumer outcomes are at the forefront of the Governments Energy Strategy.
- Tasmania is concerned that the benefits and costs of metering reform are suitably uncertain for the Tasmanian jurisdiction such that the implementation of the rule be delayed.
- The implementation timing should be reviewed in the future and be aligned to when the benefits are likely to be captured by Tasmanian small customers.
- Implementation costs seem uncertain and could possibly increase customer costs without any benefits being realised.
- New and replacement metering rule exemptions should include consideration of implementation costs.
- Approximately 20 per cent of small Tasmanian customers have 'smart meter ready' meters installed, providing a platform to enable future products and services.
- Where there is no competitive Metering Coordinator to provide a service, it may be more appropriate that TasNetworks continue to provide regulated 'smart meter ready' meters in new and replacement situations.
- Tasmania is willing to continue working with AEMC to identify and implement the most appropriate solution for the Tasmanian jurisdiction.

INTRODUCTION

Tasmania welcomes the opportunity to provide a submission on the Australian Energy Market Commission's Expanding competition in metering and related services draft rule determination.

The Tasmanian Government released its Tasmanian Energy Strategy – *Restoring Tasmania's Energy Advantage* in May 2015, which will guide Tasmanian energy policy development over the 20 year life of the Strategy. Key Strategy outcomes that are relevant to the proposed competitive metering rule change and related demand side reforms include:

- Tasmanian consumers will have greater choice about how to meet their energy supply needs;
- Tasmanian consumers will pay competitive, fair and predictable prices for these choices; and
- Tasmanian State-owned energy businesses will be more cost efficient thereby contributing to the lowest possible electricity prices.

Tasmania is supportive of the intent of demand side reforms flowing from the Power of Choice review carried out by the AEMC in 2012, recognising in particular that current market structures are creating outcomes that do not appropriately value or signal demand side choices made by consumers.

Tasmania also recognises that advanced metering can be a key enabling technology in facilitating energy products and services available to consumers and in improving the efficiency of energy businesses through the supply chain. In particular, it is recognised that advanced metering is key to enabling cost reflective tariffs (noting that, as discussed below, a large number of small Tasmanian customers already have advanced meters without remote communications enabled).

Tasmania is supportive of the transition toward more cost reflective pricing over time, and is supportive of the new distribution network pricing rules that were finalised on 27 November 2014 and will come into effect on 1 July 2017. This support is on the basis that the shift toward more cost reflective tariffs provides the opportunity to:

- Improve customer equity within existing tariff structures and by providing more efficient signals for consumer investment in demand side technologies such as solar PV; and
- Improve the efficiency of the electricity supply chain by improving utilisation of the network and delaying or avoiding network augmentation, which will decrease prices for customers.

TASMANIAN CONTEXT

It is crucial, however, that demand side reforms are implemented in Tasmania in a way that does not place upward pressure on electricity prices faced by Tasmanian households and businesses. The benefits that can be realised through demand side reforms must outweigh the costs of implementation. In regard to the competitive metering rule change, it has not been established that the benefits flowing through to Tasmanian customers will outweigh the costs of implementation. This is a significant concern to Tasmania.

It is important to acknowledge the 'starting point' of Tasmania relative to other jurisdictions. Much of the focus of tariff reforms and metering reforms assume the presence of competition, which will be enhanced by these reforms, creating more choice for customers. Retail competition has existed for decades in other jurisdictions and these reforms therefore are being implemented in mostly mature and effective retail competitive markets. This is not the case in Tasmania, where full retail contestability only commenced on 1 July 2014 and no new entrant retailers have entered the market to date.

An objective for Tasmania is to support reforms that increase the potential for competition in energy services and reducing or removing the barriers to competition is strongly supported. However, another objective is not to

impose costs on consumers where the benefits associated with these costs do not materialise (or materialise close to when the costs are incurred).

Tasmania's position is that the transition to new demand side regulatory frameworks should occur over an appropriate timeframe, recognising that some of the key drivers for demand side reform are relatively weaker than when originally conceived, and are weaker in Tasmania, relative to other jurisdictions. Most significantly, overall network demand has decreased in recent years and is projected to remain flat. Tasmanian peak demand is expected to fall over the next 10 years according to the AEMOs latest National Electricity Forecasting Report released in December 2014.

TasNetworks latest Annual Planning Report reinforces AEMOs forecasts, with peak demand for the distribution customer base likely to not reach its historic peak of 2008 until after 2024. Over this period, network augmentation requirements are likely to be limited to a few localised areas of constraint (where a broad cost reflective tariff, for example, may not be the most efficient solution to addressing these constraints).

Further, Tasmania is not generation capacity constrained and therefore does not experience wholesale price spikes observed in some other jurisdictions during extreme peak demand events. The weakness of network and wholesale price drivers for demand side reform in Tasmania dictates that a measured Tasmanian approach to demand side reforms is appropriate.

ISSUES

Implementation cost uncertainty

Tasmania is concerned that the 'onus of proof' is on demonstrating that the costs are higher than the benefits and that in the absence of such proof, the assumption is that the reforms will bring benefits. While arguably this assumption may hold in large markets where retail competitions already exists and is mature, Tasmania is concerned that the same confidence cannot be held for a small market where retail competition is yet to emerge.

An appropriate transition path also needs to recognise that the costs of implementing demand side reforms is likely to be significant and is not yet clearly understood. Tasmanian State-owned electricity network and retail businesses have indicated they will face significant implementation costs associated with the proposed competitive metering rules, and that currently it is difficult for cost impacts to be fully understood (particularly given that associated AEMO procedures do not need to be finalised until 1 April 2016). The majority of these costs are incurred in setting up back office systems to manage the change in metering arrangements and data requirements. While it is recognised these costs will be incurred at some point, it would be preferable that they are incurred and passed on to consumers close to the time in which consumers should also enjoy the benefits of the reform.

A significant consideration for Tasmania in any reform process that involves significant upfront implementation costs is that these costs are spread over a small customer base and therefore have a proportionately greater cost impact on Tasmanian customers relative to customers in other jurisdictions. This is relevant in considering the costs of implementing the proposed competitive metering rules.

New and replacement rules

Tasmania already has a significant number of 'smart meter ready' meters installed. TasNetworks (and previously Aurora Energy acting in its capacity as a distribution network service provider) has been installing 'smart meter ready' meters on a new and replacement basis for a number of years, with approximately 20 per cent of small customers currently having these meters installed. They are currently utilised as type 6 meters and do not have the remote communications capability enabled. These 'smart meter ready' meters are capable of being upgraded to meet the proposed metering minimum services specification without requiring a full meter replacement and, importantly, they provide a platform to enable future products and services based on a transparent assessment of costs and benefits.

Tasmania also has concerns regarding the costs of complying with the proposed new and replacement rules (recognising that these costs would ultimately be borne by customers), where a meter that is fully compliant with the minimum services specification must be installed unless a temporary exemption is granted on the basis of no telecommunications network being available. It is unclear what criteria AEMO would apply in assessing exemption requests. Tasmania's position is that assessment of exemption requests should include a consideration of costs, with exemption granted where the costs of providing a telecommunications enabled meter is significantly higher than the costs of providing a meter without remote communications capabilities enabled.

Absence of a Metering Coordinator

In the absence of a competitive Metering Coordinator establishing in Tasmania, responsibility for new and replacement metering falls to Aurora Energy (currently the sole retailer for small customers in Tasmania). This could place additional costs (which, as discussed above, would be ultimately borne by customers) and compliance risks on Aurora Energy. Where no competitive Metering Coordinator is able to provide a service, it may be more appropriate that TasNetworks continue to provide regulated 'smart meter ready' meters in new and replacement situations.

Opt-out provision

A further concern for Tasmania is that the proposed new and replacement rules do not allow customers to opt-out from a 'smart meter' installation.

Community concern with previous attempts to mandate rollouts of meters with advanced capabilities should not be underestimated. The position of the Tasmanian Government is that customers must be provided opt-out rights. Where a new meter is required, customers should be able to opt-out to 'smart meter ready' meters (that meet the type 4A specification proposed by Tasmania).

TASMANIAN POSITION

Tasmania is proposing to defer the application of the new competitive metering rules, on the basis that the costs of implementation may outweigh the benefits to Tasmanian customers over the short to medium term. Such a deferral could be reviewed after a period of time (for example, so that it coincides with TasNetworks distribution determination commencing on 1 July 2019) or if it becomes clear that a new retailer will enter the Tasmanian small customer market.

Tasmania's proposal would create some alignment with tariff reform. Tasmania supports the approach to tariff reform that requires the transition to cost reflective tariffs to commence from 2017, but does not stipulate an 'end date'. This is a sensible approach as it provides flexibility to ensure the pace of reform is appropriate for the market circumstances and consumers in different parts of the NEM. A similar approach to metering reform seems appropriate.

Tasmania remains open to consideration of full implementation of the competitive metering rules, if it can be demonstrated that the costs of implementation will not result in significant price increases for Tasmanian customers and that the benefits flowing to Tasmanian customers will outweigh the costs in the near term. It is likely this would require consideration of costs in determining appropriate new and replacement metering, how metering services should be provided in the absence of a competitive Metering Provider, and inclusion of broader 'smart meter' opt-out provisions.

The Tasmanian Department of State Growth look forward to working closely with the AEMC to gain a clearer understanding of what is the most appropriate approach to the provision of metering to small customers in Tasmania.



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