CITIPOWER

Powercor AUSTRALIA

CitiPower Pty
ACN 064 651 056
www.citipower.com.au

Head Office: 40 Market Street Melbourne Victoria
Telephone: (03) 9683 4444 Facsimile: (03) 9683 4499 DX 433 Melbourne
Postal address: Locked Bag 14090 Melbourne Victoria 8001 Australia

Powercor Australia Ltd
ACN 064 651 109
www.powercor.com.au

16 April 2008

E. Sarea Coates
Department of Resources, Energy and Tourism
Level 11, 10 Binara Street,
Canberra City ACT 2601

Email: MCEMarketReform@industry.gov.au

Dear Ms Coates,

Cost Benefit Analysis of Smart Metering and Direct Load Control Phase 2 Draft Reports

CitiPower and Powercor welcome the opportunity to comment on the *Cost Benefit Analysis of Smart Metering and Direct Load Control Phase 2* Draft Reports, released by the Ministerial Council on Energy (MCE) Standing Committee of Officials (SCO) in March 2008.

CitiPower and Powercor support a nationally consistent framework for Smart Metering where a positive business case exists to justify a mandatory rollout.

The report acknowledges a range of uncertainties, however what is clear from the report is that a distributor led Smart Metering Program provides the best chance of a positive outcome with maximum net benefits across all stakeholders. Whilst CitiPower, Powercor and many other stakeholders may have concerns about the absolute values reported, the relative merits of the scenarios tested give a very clear indication that a policy decision to mandate a distributor led smart metering program is appropriate.

CitiPower and Powercor therefore urge the MCE to implement a regulatory framework which provides for an exclusive distributor-led roll out with full cost recovery. This approach is justified by the analysis and findings of the report which indicates a clearly identifiable market failure which corrected, would result in considerable benefit to society as a whole.

Given that the evaluation of Scenario 1 is based on a 20 year analysis including the ongoing provision of meters and meter data services, it is also appropriate that a mandate reflect this enduring exclusive service provision.

The Report also identifies there is a high probability that without regulatory intervention there will not be a business case for investors to proceed with a mass rollout of smart metering, primarily because of the split benefits issue. This further justifies the policy intervention to mandate a smart meter rollout.

The distributor led Scenario 1 also provides the best opportunity to:

- use existing infrastructure to deliver an advanced metering solution;
- capture the benefits of density and economy of scale; and
- ensure a fair and reasonable approved regulatory charges for all customers.

The retailer led Scenario 2 raises a number of issues including:

- the complexity and cost related to meter churn creating a barrier to customers switching retailers in the competitive Retail Market;
- retailers are likely to pursue accelerated cost recovery compared to distributors given the relatively short period of retail contracts;
- possible barrier to entry for new retailers; and
- difficulties associated in achieving a mandated roll out to all customers. In the absence of a clean transition to smart metering technology it will be necessary to retain ongoing legacy systems in parallel.

CitiPower and Powercor have previously provided AMI cost information to the consultants engaged in this study. The overwhelming majority of this information has been subject to rigorous and robust market testing undertaken, and overseen, by independent experts. CitiPower and Powercor believe this information, which has been submitted to the ESC as part of the Victorian AMI Price Review, is the most robust and accurate information currently available. It is understood that the ESC will shortly release publicly a summary paper of the submissions made by the Victorian DB's.

The report makes it very clear that it should not be interpreted as a surrogate for a business case or price setting mechanism and openly states that:

> *"EMCa comments that there is a difference between the balance of probability on which it has formed judgements for the purposes of the cost benefit analysis and the level of certainty that is reasonably sought by a commercial entity seeking regulatory cost recovery for a large investment."*[1]

and

> *"Given the above uncertainties, the results in this report are indicative of the likely benefits and costs of a smart metering rollout for each jurisdiction, and*

[1] Cost Benefit Analysis of Smart Metering and Direct Load Control Overview Report for Consultation 29 February 2008, page XXii

highlight where further, and more detailed business case assessments of the costs and benefits could be undertaken."[2]

In relation to the reported benefits, CitiPower and Powercor were surprised to see such a small contribution from improved efficiencies associated with the wholesale market. This may be partly attributable to the assumptions relating to the take up rate of new tariffs which provide better price signalling. It is noted that the assumptions[3] include between 55% and 60% of customers remaining on flat tariffs. This is a very conservative estimate and likely to seriously understate the associated benefits, particularly in wholesale market, generation and transmission efficiencies. Given the Distribution Pricing Principles set out in Chapter 6 of the National Electricity Rules it seems unlikely that distributors would retain flat rate network tariffs once the legacy limitations of the existing metering stock is replaced by smart metering. If the distribution tariffs migrate to TOU under smart metering it would be surprising if retailers persisted with offers of flat rate tariffs.

CitiPower and Powercor look forward to participating in the ongoing development of the National Smart metering program. If you require further information, please do not hesitate to give me a call on (03) 9683 4282.

Yours sincerely

Rolf Herrmann
Manager Regulation

---

[2] Cost Benefit Analysis of Smart Metering and Direct Load Control Overview Report for Consultation 29 February 2008, page XXii

[3] Box 6.2: Demand Response Benefits – Key Assumptions