

5th November 2007

Manager, MCE Secretariat
Department of Industry, Tourism and Resources,
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Dear Secretariat,

Thank you for the opportunity to respond to Phase 1 – National Minimum Functionality – Smart Meters Cost Benefit Analysis.

The Centre for Credit and Consumer Law, Griffith University has the overall objective of promoting the attainment of a fairer, safer and more efficient marketplace for consumers including low income and vulnerable consumers. The Centre is able to respond to the discussions on Smart Meters due to funding received from the National Consumers' Electricity Advocacy Panel. At this stage we wish to make a few preliminary points for consideration while waiting for the outcome of Phase 2.

Our research with Queensland small end-users indicates that affordable prices and increasingly environmental concerns provide strong incentives for consumer engagement with the electricity market.¹ In this vein we welcome retail tariff structures that provide dynamic retail incentives for consumers to manage their electricity usage and functionalities that can assist directly with this outcome. However, due to the essential nature of electricity there needs to be a balance between the introduction of innovative tariff and pricing structures and the financial reasonableness of these structures for consumers as a whole and for low income and vulnerable consumers in particular. We identify the following points for consideration:

- Firstly, we wish to table our concerns about the short time frame for Phase 1. We believe that in evaluating the benefits of new technology in a National Energy Market the stand-alone introduction of smart meters in one jurisdiction (Victoria) should not have been the driver of what should have been a more realistic time frame for evaluating the viability of the introduction of smart meters at a national level. Secondly we believe that the consideration of smart meters should ideally have taken place in the context of explorations of other demand-management options not as a stand-alone option. Promoting smart meters in isolation from other strategies suggests that somehow it's a generic panacea for demand management issues which it clearly is not.

¹ Tenzin Bathgate (2006) *Electricity matters: Interviews with Queensland small end-users and their advocates*, Centre for Credit and Consumer Law Research Paper, Griffith University, Nathan, Queensland; Tenzin Bathgate (2007) *Rural and Regional Electricity matters: Interviews with Queensland small end-user advocates*, Centre for Credit and Consumer Law Research Paper, Griffith University, Nathan, Queensland.

- Having made the latter point we do however note that one of the benefits of the investigation into functionality in Phase 1 is the gathering and pooling of data and the exploration of important complementary and ancillary measures including direct load control. We welcome the exploration of direct load control in this report. We note that increasingly in Queensland the high reliance on air conditioning is also a contributor to peak power demand particularly in South East Queensland. However, in a hot climate like Queensland's air conditioners are increasingly regarded by consumers as a necessity.²
- The evaluation of smart meters was promoted positively by COAG. Information contained in the Phase 1 clearly provides upstream benefits including benefits for retailers in relation to proscribed functionalities.³ However, based on findings of Phase 1 these benefits do not appear to extend clearly to residential users on a number of points. This includes the limited overall benefits of time-of-use tariffs and critical peak pricing for residential users. Another example is the exclusion of in home display from the minimum national functionality requirements based on cost and previous studies on customers use (or lack of use) of in home displays. This exclusion de-links any opportunity for interested individual consumers to self-monitor and/or address the level of their energy use while the option implied in the report for retailers to source these displays potentially introduces a marketing tool rather than a demand management tool into the home.⁴ As a minimum national functionality we regard the establishment of an interface for home area network (function 16) as the middle-ground (pending further analysis) because it provides the capability for in-home displays, via an interface to a home-area network
- Electricity is an essential service. We have concerns in the way the functionality costs and benefits are outlined in largely economic and mechanistic terms without due regard for the social and health ramifications of disconnection. For instance we are concerned at the ramifications for consumers of remote connect/disconnect and prepayment options in the absence of a universal obligation to supply and a lack of sufficiently robust hardship provisions in place for vulnerable customers in Queensland. The NERA Consumer Impacts Report (CIR) Work Stream 4 report notes that retailers will have a commercial incentive to reconnect customers as quickly as possible.⁵ Unfortunately the same could be argued for disconnection with unfortunate consequence for vulnerable customers. We appreciate that remote connect/disconnect will potentially provide

² 'One low income person in the retirees group described how she would go without hot showers in order to ensure she had enough money to pay for what she saw as essential air-conditioning costs.' This person resided in North Queensland. Tenzin Bathgate (2006) *Electricity matters: Interviews with Queensland small end-users and their advocates*, p.38

³ For instance COAG identified that their introduction would '...allow users to better manage their demand for peak power ...' and provide '... improved customer service capability, reduced retailer risks, and network capital and operating cost reductions.' COAG (April 2007) 'COAG National Reform Agenda. Competition Reform', p.9

⁴ Insert findings from CCCL's previous report on consumer choice about electricity management options.

⁵ NERA (2007) 'Cost Benefit Analysis of Smart Metering and Direct Load Control Work Stream 4: Consumer Impacts, Phase 1.' Report for the Ministerial Council on Energy Smart Meter Working Group, p.69 (Herein referred to CIR).

significant cost savings but the establishment of this functionality needs to coincide with robust hardship regulations.

We note the potential benefits to retailers in reducing their credit exposure but not commensurate benefits for consumers in the context of electricity's essentiality. We have similar concerns with the way functionality 13 is couched (supply capacity control) in relation to customers at risk of payment default where reduction in capacity is suggested as an option for retailers.

In respect of pre-payment meters the CIR Report points out that prepayment meters may be beneficial to some customers and that they have been successful in their introduction in Tasmania.⁶ But what this summary description does not provide is the more complex picture of hardship and pre-payment meter usage. For instance a quarter of survey participants had at some point completely run out of electricity or 'self disconnected while single parents found it difficult to access a recharging outlet.⁷ In Queensland there has been no full or proper evaluation of the merits of prepayment meters where they currently exist.

- The provisional nature of information on smart meters from a consumer cost-benefit perspective is an issue of concern. For instance the CIR Report states that *'the incremental costs and benefits associated with improved customer service levels are difficult to quantify and thus our consideration of these functions has largely been of a qualitative nature'* and later that *'the quantitative effects of ... potential improvements in customer service are not easily discernible and thus our consideration of these functions has largely been of a qualitative nature.'*⁸ The overall lack of definitive comprehensive qualitative data around consumer responses to the introduction of smart meters and potential improvements in customer service is of concern. For instance the sources of consumer responses to smart meters in Phase 1 are focus groups which can only provide a snap shot response about anticipated engagement with smart meters. Reliance on this kind of data does not address the jurisdictional gap in actual trial data on consumer usage of meters in Queensland, including the absence of rural and regional data.
- Finally we wish to canvass the following point: appropriateness of applying different (Californian based) climate zone assumptions to each jurisdiction. We note that Zone 3 is applied to Queensland and Zone 4 to the Northern Territory.⁹ Although most consumers will of course be covered off by Zone 3 in Queensland given that most people reside in the south-east corner this is not necessarily the case for northern Queensland (or northern Western Australia for that matter) which share more in common with Northern Territory temperature ranges. Northern Australia is a distinctive climatic zone as is Central Australia.

⁶ CIR, p.71

⁷ TasCOSS (2006) 'Pre-payment meters in Tasmania: Consumer views and issues' A research project carried out for the Tasmanian Council of Social Service by Urbis Keys Young, p.31, p.33.

⁸ CIR p.2, p.24

⁹ CIR, p.127

Thank you for the opportunity to respond. If you have any questions about this submission please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J Bathgate', written in a cursive style.

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