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Manager, MCE Secretariat  
Department of Industry, Tourism and Resources  
GPO Box 9839  
Canberra ACT 2601

Dear MCE Standing Committee of Officials

## **Re: Cost Benefit Analysis of Smart Metering and Direct Load Control**

Thank you for your letter of 5 March 2008 regarding the release for consultation of the cost benefit analysis of smart metering and direct load control.

Power and Water Corporation has a number of concerns with the possible mandatory roll-out of smart meters in the NT. Currently the NT is undertaking significant regulatory review, with full retail contestability to commence in 2010 and a review of the existing regulatory framework currently underway. The Cost Benefit Analysis does not adequately reflect the considerable uncertainty in future NT market design.

The NT circumstance is also unique in that the Corporation is currently the sole provider of all electricity services. Therefore, the following extract from the report does not relate to the NT market.

*"The inability of any one stakeholder to capture all of the benefits may therefore mean that there is no business case for any individual stakeholder to undertake smart meter roll-out."*

Unlike other jurisdictions, the Corporation stands to receive many benefits and incur all costs from the roll-out. The Corporation is therefore uniquely well placed to make economic decisions based on the commercial realities of a smart meter roll-out.

The NT is also currently taking part in the Australian Government's Solar Cities project, with Alice Springs Solar City launched on 10 March 2008. This project provides the Corporation with the opportunity to collect data and determine the costs and benefits associated with a smart meter roll-out.

The Corporation has detailed concerns regarding the findings of the consultants' reports. The reports findings indicate that the NT is a borderline case and that the roll-out of smart meters is dependant on the view to the reasonableness of the cost and benefit

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estimates. Given the report identifies a variation in net benefits in the best case scenario (Distributor Lead) of between -\$3 million and +\$23 million, there appears significant room for concern.

After reviewing the consultants' reports we have found a number of areas where the assumptions do not reflect the true cost/benefits achievable in the NT. These matters are outlined in Attachment A.

Given the issues identified, the Corporation considers that, at this time, the benefits of a mandated smart meter roll-out in the NT are very unlikely to outweigh the costs. However, even if a smart meter roll-out is not mandated in the NT, the Corporation would adopt smart meters as soon as it is genuinely economically viable.

Yours sincerely

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

Andrew Macrides  
**Managing Director**

18 April 2008

## **Smart Meter Installation Costs**

### Installation

While the daily rates for labour in the NT identified in the Stream 6 Report (\$630-\$740) appear accurate, this results in an installation cost of between \$60 and \$80 per meter. The Corporation's experience has shown that overall the real costs are much higher. In a recent tender the Corporation received prices of \$323 per meter with asbestos boards and \$235 without. While on paper it may be possible to achieve the \$60 to \$80 per meter estimate, the Corporation believes that \$126 per meter is more realistic in the current NT market.

In addition, the report appears to assume that asbestos boards will not be replaced during the roll-out, which is contrary to the Corporation's current policy. Currently the Corporation replaces all asbestos boards when meters require replacement. Therefore the roll-out of smart meters would accelerate this program significantly.

In 2006-07 the Corporation engaged a consultant to investigate the economic feasibility of rolling out interval meters in the NT. The consultant found that the average cost of installing a single phase meter was \$107.81. This estimate was completed using 2005-06 values and would be subject to inflation. However, even without inflation this cost is significantly higher than the current reports' estimates.

### Meter

The Stream 6 report identifies the total costs for meter purchases in the NT in the range of \$261 to \$418 per meter. The Corporation considers these costs to be relatively low. This is due to the study utilising a minimum economy of scale of 250,000 meters. In the NT, based on the potential regulated market of Darwin-Katherine, the number of meters required is likely to be less than 60,000. Consequently, the Corporation could not achieve the same economies of scale.

### Communication

The IT communication costs for all options identified in the Stream 6 - Transitional Costs Report for the NT appear below average. The consultants' have explained that this is due to only the Darwin-Katherine System being investigated. As a result the NT only has 5% rural and 0% remote customers (compared with the national average of 11% rural and 3% remote). Although only 5% of Darwin-Katherine customers are classified as rural, the distances that the communications network will need to cover is significant. Further, there is a shortage in existing communication infrastructure.

## **Business efficiencies & other benefits**

### Prepayment Metering

Although smart meters would provide the Corporation with a cheap alternative to the current prepayments meters, they increase the complexity for customers. Currently our prepayment meters are token operated. Tokens appear to be the most

appropriate means as a large percentage of our pre-payment customers have varying degrees of literacy.

In addition, the Corporation has found that the level of tampering is significantly higher on pre-payment meters and the quarterly meter read provides the Corporation with an opportunity to audit meters. Consequently although the smart meters are a cheaper alternative the Corporation may continue to use the existing prepayment meters.

#### Manual disconnection & reconnection

The reports appear to assume that our disconnection and reconnection costs are related to our charges and that the fee is applied to both the disconnection and reconnection. Recent investigations have suggested that the actual cost for a business hours disconnection and reconnection in the same day is \$19.27 (flat rate). This is significantly lower than the \$50 to \$60 identified in the Stream 6 report.

#### Current Meter Reading Staff cost savings

The Corporation will be unable to achieve the assumed avoided meter reading savings in the near future due to staffing implications.

If smart meters were only rolled out in the Darwin-Katherine System, the Corporation would be required to operate two systems. It is therefore unlikely that the resources required would reduce; it is in fact more likely to require increased staff numbers to manage the dual systems.