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Costs and benefits of a national rollout of Smart Meters

Submission to the Phase 2 Report for the Ministerial Council on Energy Smart Meter Working Group

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The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that identifies public interest issues and works co-operatively with other organisations to advocate for individuals and groups affected.

PIAC seeks to promote a just and democratic society by making strategic interventions on public interest issues in order to:

- expose unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate;
- promote the development of law—both statutory and common—that reflects the public interest; and
- develop community organisations to pursue the interests of the communities they represent.

Energy + Water Consumers' Advocacy Program (EWCAP)

This Program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the Program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the Program from a community-based reference group.

Introduction

PIAC is pleased to provide comment on the Phase 2 Cost Benefit Analysis Report for the Ministerial Council on Energy Smart Meter Working Group (Report). The authors of the Report should be congratulated on the process in developing the Report as consultation was inclusive and the reporting detailed.

PIAC welcomes aspects of the findings made in the current Report, for instance, that further consumer protections will be required to be in place before any rollout occurs. In particular, PIAC supports the findings that any rollout of smart meters will require consideration and modification of:

- hardship policies,
- procedures to identify consumers facing financial distress, particularly remote disconnection,
- education programs to inform consumers about smart meters and time of use (TOU) pricing,
- the ability of consumers to switch between TOU and standard tariff.

However, PIAC has concerns regarding the findings of the Report. These are discussed below. PIAC previously stated, in its submission to the Phase 1 Report of the Ministerial Council on Energy Smart Meter Working Group, that:

'a convincing case demonstrating the benefits to consumers has not been adequately made. It is therefore unlikely without clearer demonstration of benefits to consumers that PIAC will support a mandated national rollout, independent of the recommendations of Phase 2.'¹

Due to the concerns PIAC has regarding the findings of the Phase 2 Report, PIAC has not altered its position that the case for consumers benefiting from a mandated national rollout has not been made.

¹ Public Interest Advocacy Centre submission to the Phase 1 Report for the Ministerial Council on Energy Smart Meter Working Group, November 2007, p 1.

Accuracy of findings.

PIAC has serious concerns about the accuracy of the long term forecasting of the costs and benefits of smart meters in the Report. The cost benefit analysis was done based on assumptions, limited information and in a hurried time frame, all of which put into question the validity of the Report's findings, and the reliance that can be placed on the Report's figures.

This appraisal is not an attempt to discount the work of the consultants. The cost/benefit analysis has been done at a single point in time on the best currently available information. This is inherently limited and requires a plethora of assumptions being made in order to complete the models used to forecast benefits. The cost/benefit analysis was complex for a number of reasons, not least of which is that a smart meter capable of all of the functionalities prescribed in the Phase 1 Report does not yet exist in the market.

PIAC's scepticism of the accuracy of the Report's results is consistent with comments made by the consultants that highlight that their analysis is limited. For example, the Report states that there are:

considerable limitations associated with the information used [in the Report] that bring into question the conclusions that can be drawn from the quantitative results presented.²

The experiences of other jurisdictions provides a warning about the reliance that can be placed on estimated costs of hypothetical rollouts. For instance, the Victorian Essential Services Commission (ESC) recently delayed its interval meter rollout due to uncertainties about the estimates provided in the government's original costing.³ The ESC cited difficulty in establishing operating arrangements and delivering the specified functionality as the cause of changes to projected costs.

Given the uncertainties about the actual costs and benefits that would derive from smart meters, policy makers should take a cautious approach to promoting a meter rollout. Care should be taken not to over emphasise the capabilities of smart meters, particularly in relation to consumer and environmental benefits.

Distributor led rollout

PIAC endorses the Report's findings that a distributor led rollout is the most appropriate rollout model.

The Report asserts that there is no commercial sense for distribution network service providers (DNSPs) to install smart meters as a business initiative as no one stakeholder would benefit (see p 198). However, DNSPs in NSW have already installed more interval meters than the rest of Australia, as a business initiative. This directly challenges the Report's assertion.

PIAC supports the continuation of the practice of a market driven gradual rollout, driven by the commercial decision making of the DNSPs, as opposed to a mandated national rollout.

Furthermore, the Report's assertion makes it unclear which stakeholders in the National Energy Market (NEM) must be involved in a rollout in order for benefits to accrue. The need for a range of stakeholders to be compelled to participate in order to capture sufficient benefits to justify a smart meter rollout also means that it may be difficult for consumers to recoup their costs incurred in a rollout.

² Overview Report of the Phase 2 report for the ministerial council on energy's smart meter working group, p 195.

³ See Victorian Essential Services Commission, Open Letter to Stakeholders, 18 April 2008, found at: <http://www.esc.vic.gov.au/NR/rdonlyres/342F2E91-4A9F-4C04-96EE-12FA0BE1F252/0/OpenLetter18April2008AdvancedMetering.pdf>

Jurisdictional differences

The Report predicts that NSW is the most likely place that a rollout of smart meters will accrue net benefits. It also finds that smart meters in other jurisdictions, such as South Australia and Tasmania, could deliver net detriments.

Although the advantage of having a national standard for functionalities on an interval meter is clear, PIAC questions the sagacity of mandating a national rollout of smart meters when the cost/benefit analysis shows that it would only benefit certain jurisdictions.

The jurisdictional differences present problems for the Report's analysis. For instance, a jurisdiction's decision not to rollout meters may affect cost benefit assumptions in other jurisdictions. PIAC is concerned, for example, that if South Australia rejected rolling out meters it would make it more expensive for NSW to rollout meters. This is more pertinent if considering comments discussed earlier regarding the need for a range of stakeholders to participate in a rollout in order to capture sufficient benefits.

Additionally, if a national rollout takes place in all jurisdictions, PIAC is concerned that consumers from NSW will be required to subsidise consumers from unprofitable jurisdictions.

The jurisdictional differences raise the issue of the role of the Australian Energy Regulator (AER) in distributing benefits derived by smart meters. In particular, the AER will need to account for intrastate variations in the costs and benefits of a smart meter rollout.

More broadly, PIAC echoes other consumer advocate concerns that existing regulatory frameworks will not equitably redistribute benefits to consumers to offset the costs they incurred for the installation of the meter.⁴

In addition to the AER monitoring smart meter costs and setting price paths that reallocate any benefits gained annually, PIAC recommends frequent review of the distribution of benefits deriving from a meter rollout.

Energy efficiency and greenhouse benefits

PIAC notes that the Report debunks the assumption that smart meters are an efficient energy conservation tool. Specifically, the Report states that the rollout will have 'only a moderate impact on the MCE objective in relation to promoting energy efficiency and greenhouse benefits'.⁵

Of concern is the Report's identification of TOU pricing being a benefit for consumers who are not at home during peak hours.⁶ Accordingly, consumers that stay at home, namely pensioners, people suffering illness, the unemployed, and young families, will suffer detriment from the introduction of TOU pricing. PIAC stresses that consumers should not be forced into adopting a new pricing structure that will place them at a disadvantage.

Home area network (HAN)

PIAC supports the inclusion of a HAN. It allows consumers the choice to access real time information on their electricity consumption in a manner convenient to the consumer. It also gives consumers the right to

⁴ Western Australian Council of Social Services, April 2007, Submission to the MCE re the cost benefit analysis of smart metering and direct load control: phase 2 reports for the ministerial council on energy's smart meter working group.

⁵ Overview Report of the Phase 2 report for the ministerial council on energy's smart meter working group, p 193.

⁶ *ibid* p 204.

avoid paying for an In-Home display (IHD) which may be of no utility to them, particularly if a consumer has not adopted TOU tariffs.

Access to real time information on electricity consumption may increase the opportunity for attracting a demand response from consumers, although PIAC notes that the Report considers that an IHD would provide only an additional 0-4% demand response. Consumers may choose to invest in more cost efficient energy conservation products.

Conclusion

The Report has recommended that there are sufficient benefits to outweigh the costs of a mandated national rollout of smart meters. However, the Report also provides enough evidence to show that not all jurisdictions will benefit from a mandated rollout, that there are limited environmental benefits flowing from a smart meter rollout, and that the Report's cost estimates may not be accurate and will need further review.

On the basis of these findings PIAC maintains its recommendation that a DNSP business initiative/market driven rollout of smart meters is more appropriate and would bring more benefit to consumers than a mandated rollout.