



8 May 2008

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

Dear Sir,

Regulatory Impact Statement Consultation for National Smart Meter Roll-Out

I am writing in response to the questions raised in the Regulatory Impact Statement for the Cost Benefit Analysis of Options for National Smart Meter Roll Out.

Red Energy's retail business is primarily focussed in Victoria, however it also has customers in South Australia, New South Wales and ACT and holds a retail licence for Queensland. Red is one of two second tier retailer representatives on the Victorian Industry Steering Committee established to deliver the Victorian Government's AMI policy. However, Red supports a comprehensive, carefully considered, national approach to AMI policy such as that being considered by MCE.

Second tier retailers such as Red have limited resources to engage in development of national policy as well as State policy initiatives which continue to have a greater immediate impact on the business. Our response to the RIS is therefore limited to the following key questions:

- 1) What is Red's preferred roll out option?
- 2) What measures will maximise benefits and/or minimise costs and risks of a smart meter roll out?
- 3) Does the "split benefits problem" inhibit businesses from rolling out smart meters of their own accord?
- 4) What are the additional costs, risks or benefits arising from distributor or retailer led roll outs?



What is Red's preferred roll out option?

Under existing regulatory arrangements electricity retailers currently have the option under Chapter 7 of the National Electricity Rules to be the responsible person for remotely read interval meters. The use of advanced metering for small sites is the choice of the retailer and arguably also therefore, through the operation of the competitive retail market, a choice of the customer. Red Energy supports the principle behind these current arrangements which provide for competitive markets in advanced meter services and a retailer led roll out.

What measures will maximise benefits and/or minimise costs and risks of a smart meter roll out?

It is Red Energy's view that the best way to maximise benefits and minimise costs is through the use of competitive markets where possible. The imposition of regulated monopolies for meter provision and data services with a guaranteed cost recovery regime will prevent ongoing technological and cost improvements being made available to customers in a timely manner. Such improvements will be denied to customers until the end of the life of their existing meter. Indeed it is the current cost recovery regime currently in place for basic meters in Victoria that has helped to block commercial deployment of AMI in the Victorian residential market to date. We do not believe that the maintenance of such a charging regime is in the interests of consumers from price, quality of supply and service perspectives.

Policies should be aimed at fostering the development of two distinct competitive markets with low barriers to entry, one for meter provision (and asset business) and one for data services (and information management business). It is our view that current regulatory uncertainty is one of the principle reasons why little new entry to these markets has been seen despite current investment interest in AMI.

Does the "split benefits problem" inhibit businesses from rolling out smart meters of their own accord?

In Red Energy's view the so called "split benefits problem" is not the principle reason for the slow adoption of AMI to date. Red Energy undertook an AMI trial for around twenty five customers in 2007 with a NEMMCO accredited third party meter and data services provider, independently of the local distribution business. Experience with this small number of sites has helped to inform the business about the reliability and cost effectiveness of currently available, competitive AMI solutions. Red Energy has since committed to a pilot project of up to five hundred sites, of which around one hundred are now operational.



As discussed above, one of the main challenges for retailers such as Red is the distributors' cost recovery regime for current metering whereby retailers can often only avoid a meter read fee if an advanced meter is installed through a third party service provider and cannot avoid paying for the replaced metering asset. In Victoria, Red Energy has also been paying fees to distributors for a manually read interval meter roll out since 2006. If Red could recover its payments they would help fund Red's procurement of AMI services for its customers.

What are the additional costs, risks or benefits arising from distributor or retailer led roll outs?

AMI is a field of rapid technological change inherently suited to innovation for which a long term planning approach and regulation is least suited and high risk. Red Energy is sceptical that a theoretical cost benefit analysis can correctly identify and quantify all the costs and benefits that will actually arise from a roll out of smart meters. Indeed we understand that the cost submissions made by the Victorian distribution businesses to the Essential Services Commission for cost recovery of a distributor led roll out in Victoria are significantly higher than the estimates made for the Victorian cost benefit analysis. In our submission to the AEMC with respect to the Victorian derogation application, we identified at least five hidden costs with a distributor led roll out that should be considered:

- Cost recovery blocks adoption of new and/or rapidly changing technologies and prevents cost reductions being passed on to customers in a timely manner – modest levels of meter churn over time with customer consent due to technology or service innovation isn't necessarily bad for consumers (consider the costs and benefits of churn in retail).
- Information asymmetry between distributors and the Regulator will lead to higher costs and prices than in a perfect world – cost recovery encourages high cost systems and assets if they can be justified through a regulatory process.
- Regulated metering monopolies will kill innovation in provision of services and technologies. There is little if any incentive for differentiation by distributors.
- Changes to National Electricity Rules will prevent retailers such as Red from rolling out meters in advance of a distributor roll out timetable where there is a business case and/or customer demand. Blocking retailers from exercising their rights under current rules may slow the introduction of AMI.



- Establishing regulated distributor monopolies for small customer metering will damage competition in the current market for metering services for customers >160MWh p.a., and would be likely to impose higher costs on these businesses.

Thank you for the opportunity to comment on the Ministerial Council of Energy's considerations for a national smart meter roll out.

Yours sincerely,

A handwritten signature in black ink, appearing to read "M. Exelby", with a long horizontal stroke extending to the right.

Martin Exelby
Strategy & Pricing Manager