



Our Reference: DMS #3130184
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6 May 2008

Manager, MCE Secretariat,
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GPO Box 9839
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Dear Sir or Madam

**STANDING COMMITTEE OF OFFICIALS OF THE MINISTERIAL COUNCIL ON
ENERGY – SMART METER COST BENEFIT ANALYSIS REGULATORY IMPACT
STATEMENT**

Please find attached Synergy's submission in response to the above.

Yours sincerely,

A handwritten signature in black ink that reads "S. Thackray".

**SIMON THACKRAY
MANAGER REGULATORY – RETAIL**



**STANDING COMMITTEE OF OFFICIALS OF THE
MINISTERIAL COUNCIL ON ENERGY**

**COST-BENEFIT ANALYSIS OF OPTIONS FOR A NATIONAL SMART METER
ROLL-OUT (PHASE TWO – REGIONAL AND DETAILED ANALYSES)**

CONSULTATION REGULATORY IMPACT STATEMENT

The Synergy logo is located in the bottom right corner of the page. It features the word "synergy" in a lowercase, sans-serif font. To the right of the text is a circular graphic element containing a stylized starburst or spark, similar to the one in the top right corner of the page.

synergy

Synergy is Western Australia's largest energy retailer and the fourth largest in Australia with approximately 890,000 industrial, commercial and residential customers, generating total revenue of more than \$1.5 billion annually. Synergy is responsible for purchasing and retailing electricity and gas to customers within Western Australia's South West Interconnected System (**SWIS**).

Synergy has previously provided a detailed submission to the Ministerial Council on Energy's (**MCE**) in response to the Smart Meter Cost Benefit Analysis (**CBA**), in April 2008.

1. Do stakeholders agree with the problem description, including the fact that the split-benefits problem inhibits businesses from rolling out smart meters of their own accord?

The benefits of smart meters do not accrue to a single sector of the electricity industry. Therefore, in considering the costs and benefits of smart metering, a "whole of society" perspective needs to be adopted. Synergy does not consider a mandated monopoly model of meter service provision will maximise these benefits across the entire sector, including electricity customers.

In Western Australia, current regulatory arrangements prohibit a market participant other than distributor, being responsible for meter ownership and operation.

Synergy notes however, provided competitive markets exist, there are participants who are willing to undertake investment risk to deliver the full value chain of metering services (ownership, installation, maintenance, communications, data management etc) as a commercial enterprise.

The MCE's attention is drawn to the New Zealand electricity market whereby Full Retail Contestability (**FRC**) and competitive procurement by retailers of meter service providers has been in place for several years, and the industry there has devised means of ensuring efficient processes have been established to monitor changes of retailer and service providers and to commercially limit meter churn in the mass market.

Several retailers in New Zealand are seeking to install more than 1.1 million smart meters for the domestic mass market without a mandate or requirement from Government to do so, but based on competitive procurement.

Independent meter service providers are more likely to continually adopt technologically advanced meters to avoid meter displacement and retain customers.

2. Do stakeholders have a view on the consultant's recommendation to include the HAN in the national minimum functionality?

Synergy strongly supports this recommendation.

HAN functionality, specifically the ability to accommodate in-home display, is very important in providing customers with visible and real time price signals in order for them to modify their behaviour in response to those signals. This is a significant issue for Western Australia which is facing significant tariff increases to both residential and business customers in the period 2008-2016.

In addition, HAN functionality visibly enhances environmental impacts to the customer (consumption, greenhouse gas emissions etc) which assists to drive behavioural change.

3. Can stakeholders suggest any other options that could achieve the MCE objectives more cost efficiently than the scenarios presented?

Yes. The definition of Scenario 2 explicitly precludes a distributor providing smart meter services in a contestable market. This assumption is unsustainable. If the incumbent distributor provides meter services in a contestable market to a retailer, then the material differences between Scenarios 1 and 2 fall away in Western Australia, particularly in the absence of FRC where change of retailer issues do not arise.

Further, it can be argued the costs of a distributor providing metering services in a contestable market under Scenario 2 would be less than in a regulated market under Scenario 1, in order for the distributor to avoid meter business displacement.

Longer term, the benefits of smart metering can also be leveraged from the gas and water sectors.

4. Do stakeholders think the status quo (i.e. a mix of accumulation, interval and smart meters) is sustainable?

No. Provided the barriers to metering competition are removed and the market has a commercial incentive to innovate to deliver customer expectations, then Synergy expects meter technology will converge over time in favour of smart meters. In the event impediments remain to this occurring, then the split benefits of smart meters is likely to be diluted by the existence of a mix of meter types and technologies.

5. Do stakeholders agree with the overall finding of the consultation reports suggesting that, for a general national case, a smart meter mandate provides higher net benefits than a DLC only scenario?

Given the MCE CBA is an indicative analysis, it is difficult to categorically state that the benefits of a smart meter roll-out are greater relative to the roll-out of direct load control in isolation. Synergy supports a pilot being undertaken in Western Australia to confirm whether benefits are maximised via a roll-out of: (i) smart meters in isolation; (ii) direct load control in isolation; and (iii) smart meters with direct load control.

6. What impact do stakeholders think the different proposed roll-out scenarios would have on competition for:

- a) Metering manufacture**
- b) Metering installation and maintenance services**
- c) Meter data services**
- d) Retail electricity services**
- e) Additional in-home services such as in-home displays and direct load control**

Synergy considers the roll-out model ultimately adopted will have a material impact on costs and benefits to distributors, retailers and ultimately customers.

Synergy considers competition will deliver more optimal outcomes in meter service provision than a regulated monopoly.

The retailer that maximises the customer's benefit should be the party that provides the services to the customers. Retail competition for customers drives enhancement of

services and therefore functionality. In order for this to occur, meter displacement should be permitted. Displacement occurs when functionality is not provided – this ensures investment is market responsive and competitively priced.

Given 85% of the cost of smart meter roll-out is due to meter purchase and installation, it makes economic sense to subject these services to competition. This does not preclude a distributor from providing the service, provided it is least cost or most efficient.

It is Western Australian Government policy to assist customers to reduce their electricity consumption. Therefore, potential exists in this State for smart meters to be used as a way to help customers limit recently announced tariff increases.

The MCE reports have not adequately focused on which service provider is best placed to maximise customer benefits of smart meters. Synergy considers the retailer will maximise the benefits as it has the direct relationship with the end use customer and has a commercial incentive to deliver customer expectations, otherwise it will lose the customer.

Most Western Australians pay little regard to their electricity consumption. Provided supply is reliable and perceived to be reasonably priced, customer interest is limited. Smart meters however, have the potential to significantly change customer attitudes towards electricity consumption and how this affects their bill and the environment.

Specifically, the benefits to customers will depend on their response and willingness to embrace the new technology. Successful customer engagement is therefore fundamental to customer acceptance of smart meters.

Introducing smart meters without retail products that optimise behavioural change will largely be ineffective. Therefore it is essential that a smart meter roll-out is customer focused.

As Western Australian retailers have the primary relationship and contact with the customer, they are best placed to market the benefits of smart meters and hence maximise the benefits associated with customer usage through products such as time of use tariffs.

7. Can stakeholders identify any additional costs, risks or benefits that would result from a distributor led roll out? What can be done to maximise the benefits and minimise the risks of this option?

Synergy has previously provided its comments on the matter to the MCE Secretariat as part of its response to the MCE CBA.

8. Can stakeholders identify any additional costs, risks or benefits that would result from a retailer led roll out? What can be done to maximise the benefits and minimise the risks of this option?

Refer Q.6. Synergy has also previously provided its comments on the matter to the MCE Secretariat as part of its response to the MCE CBA.

9. Do stakeholders think the central communications option is feasible? If, not what steps would need to be taken to make it so?

Yes provided this has been determined by the market to be the least cost and most efficient outcome. Central communication requirements in Western Australia can be determined as part of a pilot and then reflected within the regulatory framework prior to any mass roll-out.

10. Could elements of the central communications option, such as complete central data set or greater interoperability, be considered as additions to other options? Do stakeholders see benefit in having one set of official data held by a third party?

Yes provided this has been determined by the market to be the least cost and most efficient service provider. The required degree of interoperability arrangements in Western Australia can be determined as part of a pilot and then reflected within the regulatory framework prior to any mass roll-out. Synergy favours national consistency wherever possible and practical.

11. Can stakeholders identify any additional costs, risks or benefits that would result from a retailer-led roll-out with centralised communications? What can be done to maximise the benefits and minimise the risks of this option?

Under a retailer-led roll-out i.e. a contestable meter provision model, centralised communications could be provided by the incumbent distributor (an outcome explicitly excluded under the Scenario 2 assumptions) or independent meter service provider, however the critical aspect is that the ultimate service provider should be subject to competitive forces.

12. Of the roll-out models listed, which is your preferred option and why?

It is Synergy's view market forces will deliver the most competitive outcome in the provision of metering services. The party which is the least cost, most efficient and who is prepared to take the market risk for full meter service provision, be it distributor, independent meter service provider or retailer, should perform the service.

Customers will churn retailers if the incumbent retailer does not deliver their expectations. The provision of metering services should be no different, especially given meter technology has changed in recent years from billing to market settlement to now promoting behavioural change through transparent price signals and retail product innovation.

Synergy's preferred model is to make meter provision contestable in Western Australia on the basis competition will maximise the public benefit opposed to regulated monopoly. However, to ensure all parties (retailers, distributors, customers) benefit from any mass roll-out, Synergy advocates the adoption of a Western Australian pilot – refer Q.21.

13. Are there any other models (including hybrids) that could be considered?

No comment.

14. Are there any jurisdictional issues that stakeholders think have not been addressed in the cost-benefit analysis?

Western Australia's electricity market has unique characteristics in its design and development, detailed below:

- There is a need to substantially increase residential and business tariffs in WA.¹ The magnitude of the increases was unknown at the time the CBA was undertaken. Therefore, the estimated demand response benefits for Western Australia are likely to be understated.
- Western Australia has yet to implement FRC, principally due to the absence of cost reflectivity in franchise tariffs. The movement to cost reflective tariffs will take a number of years. (The Government has indicated a glide path of 6-8 years.)
- Rolling-out smart meters prior to FRC provides some significant advantages:
 - It would enable FRC to proceed based on interval metering, without the need for the development of a profiling system and procedures in Western Australia, thus saving those development and operational costs.
 - The roll-out of smart meters prior to FRC means that several Scenario 2 (contestable meter provision model) assumptions relating to multiple retailers using multiple meter service providers and meter data agents would not apply in this State. Therefore, the benefits would be greater than what has been previously modelled.
 - It would provide for more accurate settlement between retailers under FRC and without the inaccuracies and risks that are embodied in settlement based on using basic meters with differencing.
 - It would enable retailers to compete from the beginning of FRC based on offering a variety of products using the capabilities of smart meters and not just by competing on the same or similar tariff structures to those offered by the incumbent retailer.
 - It would introduce competition into an area which is currently a regulated monopoly.
- The MCE CBA has not assessed nor taken into account existing distributor performance in Western Australia².

15. Are there any further implications stakeholders wish to raise if smart meters are rolled out in only some jurisdictions or rolled out in a staged approach?

The roll-out of smart meters should be a State based decision. Therefore, it is likely there will be differences between the States in regard to a decision to proceed or not, the conduct of pilots and the timeframes in which mass-roll-outs occur. Given Western

¹ Refer "Electricity Retail Market Review – Draft Recommendations Report Review of Electricity Tariff Arrangements, Office of Energy Report to the Minister for Energy" Office of Energy April 2008.

² Refer "2006/07 Annual Performance Report Electricity Distributors February 2008" Economic Regulation Authority.

Australia is not interconnected to the NEM, Synergy does not consider this to be a material issue for Western Australia.

16. In light of this analysis do stakeholders see any implications for a smart meter roll-out in rural and remote areas in comparison to urban areas?

There are some obvious differences in a regional roll-out of smart meters relative to metropolitan areas in the cost, roll-out timeframes, standard of distribution infrastructure, geographic remoteness etc which will impact on a rural or remote roll-out.

However, the concerns expressed in the MCE CBA relating to multiple retailers being active within a given geographic area (metropolitan or otherwise) resulting in multiple smart metering technologies and communication standards being adopted do not apply within the SWIS franchise market.

17. Where do stakeholders think smart meters should be rolled out? What timeline is appropriate for specific jurisdictions and what additional jurisdictional factors should be considered in the timeline?

These matters should be determined following a SWIS advanced meter pilot. Refer Q.21.

18. Where do stakeholders think the details of a mandated smart meter roll-out should be set out, including responsibilities, timelines and cost recovery? Which aspects should sit in national or jurisdictional instruments?

Given Western Australia is not interconnected to the NEM, then determination of roll-out responsibilities, timelines and cost recovery within the Western Australian regulatory framework is the responsibility of the State Government. However, national consistency of smart metering regulatory arrangements should be pursued wherever possible and practical.

19. What are stakeholder's views on the proposed legislative model in Table 15? Are there any other issues that should be considered in the legislative framework?

Synergy considers the legislative model contained in Table 15 should not apply to the Western Australian electricity market, given the independent nature of our electricity system. The decision maker for the matters raised in Table 15 is the State Government.

20. What process should inform the design of smart meter pilots and trials? Who should be responsible for undertaking them?

In the case of Western Australia, this should be collaboratively undertaken by the Western Australian Government, market participants, potential meter service providers and key affected stakeholders, such as the Independent Market Operator.

21. What are stakeholder views around resourcing of pilots and trials?

Synergy supports a smart meter pilot within the SWIS as there have been no significant trials of such meters in Western Australia and the MCE CBA contains assumptions which have yet to be tested or proven in this State.

Given the uncertainty over net benefits acknowledged by the MCE CBA, Synergy considers the risk of uncertainty, including customer response, reduced peak demand etc, can be effectively managed by a smart meter pilot following the development of the detailed functional specification.

If the service provision for the trials were competitively procured, it would also enable the interest of service providers to enter the market to be gauged and thus to test how successful a full competitive procurement process for smart meter roll-out in Western Australia might be.

The purchase decision for smart meters should be industry's responsibility and requires a commercial business case for adoption. However, in the event Government seeks to mandate the requirement it is prudent to undertake a pilot to confirm the costs and benefits prior to industry and ultimately customers incurring potentially significant costs (dependent on the roll-out model undertaken). If Governments are seeking to mandate smart metering, it is appropriate that they also contribute pilot funding.

22. What do stakeholders think is the best approach to the safety review?

A combination of technology and effective regulatory design can be used to address this matter. For example, meter reconnection features can include the requirement for the customer to accept responsibility to reconnect the premises following disconnection. Safety features should be considered by the relevant Smart Meter Working Groups and ultimately prescribed in the regulatory framework applicable to the use of such meters.

23. Do stakeholders have particular issues to be considered by the review of consumer protections arrangements?

Synergy is concerned the benefits of smart meters may be mitigated by excessive regulatory costs designed to address perceived concerns with respect to the use of such meters. Therefore, adoption of a pilot prior to a mass roll-out would provide empirical data to substantiate any enhancement of the Western Australian customer protection framework in regard to:

- Remote connections/disconnections.
- Pre-payment use.
- Customer safety.
- Pricing impacts on vulnerable customers.
- Whether certain customers have the ability to change their behaviour in response to price signals.

24. Do stakeholders have views on different approaches to public education on smart meters or on the funding of such campaigns?

In the event the State and Federal Governments mandate mass smart meter roll-out, it is reasonable to expect Governments to play a role, including funding public education to

promote the benefits of the technology, specifically encouraging customers to use electricity more efficiently and encouraging less consumption at constrained times of the day. Such arrangements would be in addition to specific retailer programs.

25. What are stakeholders views on the need for interoperability in smart meter infrastructure and how would it be best achieved?

Synergy considers the market is the best placed to determine these arrangements with the outcomes then reflected within the regulatory framework as appropriate. Synergy favours national consistency wherever possible and practical.

26. What do stakeholders think is the best approach to address data management and business interface issues?

Synergy considers the market is the best vehicle to determine data management and business interface issues. Synergy favours national consistency wherever possible and practical.

27. What do stakeholders think is the best approach to accommodating existing interval and smart meters currently in use and the Victorian process?

No comment.

28. Do stakeholders know of any other issues that may require transitional arrangements?

Consideration should be given with respect to ensuring distributor pricing structures promote the use of smart meter capabilities, specifically retail time of use tariffs.