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Western Australian
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*Ways to make
a difference*

8 April, 2007

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Dear Smart Meter Working Group

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**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**

WACOSS welcomes the opportunity to respond to the recent release of reports relating to the cost-benefit analysis of smart metering (SM) and direct load control (DLC) technologies, prepared for the Ministerial Council on Energy's (MCE) Smart Meter Working Group (SMWG). The introduction of 'smart' interval metering technology and DLC has the potential to provide significant benefits, as well as impose substantial costs for both users and the retail and distribution energy markets.

This submission is intended to represent the views of the West Australian Council of Social Service (WACOSS) in relation to the streamed reports previously provided to the SMWG. Omission of comment in relation to any report, or any section of a report as part of Phase 2 of the MCE's consultation is not intended to imply endorsement of the findings or recommendations contained within those reports.

Support for Joint SVDP, CUAC Submission

In addition to the issues discussed below, WACOSS supports the views expressed in the April 2008 joint submission to the MCE's SMWG by the St. Vincent de Paul Society and the Consumer Utilities Advocacy Centre. WACOSS shares the concerns expressed within this submission regarding the need for additional modelling of the impact of higher-than-assumed Time of Use (TOU) tariff allocation on a cost-benefits analysis. Additionally, WACOSS also remains concerned regarding assumptions made within the various streamed reports, including the extent to which In-Home Displays (IHDs) will illicit a demand response, and over what period of time such a response would prevail.

Further to these concerns, WACOSS recommends that the MCE seek further advice and conduct further studies regarding these and other assumptions made throughout the cost-benefits analysis.

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THE PURPOSE OF SMART METERING

The main, articulated policy objectives for the proposed national roll-out of smart meters in Australia is to reduce demand for peak power, improve electricity business efficiencies and to help households reduce their electricity greenhouse gas emissions. However, there is insufficient evidence that interval meters are the best instrument to achieve such outcomes. WACOSS also suggests that to date, the intended aims of smart metering have not been defined to the degree required for such a large, proposed investment.

WACOSS supports the proposal from the Western Australian Sustainable Energy Association (WASEA) that smart meters should be used 'where the biggest impact in reduced consumption and shifting peak load can be achieved through TOU tariffs with large energy users being a priority.'¹ The graph below shows that residential users play a relatively small role in contributing to peak periods.²

WACOSS is not averse to tariff structures that provide incentives for consumers to better understand and manage their electricity usage. However, due to the essential nature of electricity there needs to be a balance between the use of dynamic pricing structures and the affordability/impact of these structures for consumers as a whole and for low income and vulnerable consumers in particular.³

Notwithstanding the positive assessment of direct load control technologies, as explored within the Phase 2 assessments, WACOSS believes that more consideration should be given to how similar emission and peak load reductions may be achieved through other methods. These may include the addition of new low-emission baseload technologies and other energy efficiency initiatives, such as targeted household retrofitting and education. In addition, the promotion of small-scale, distributed baseload production through renewable energy should also be considered within this analysis.

In the absence of an analysis comparing smart meters with a range of other alternatives, it is not possible to conclude whether a mandated roll-out of smart meters is the most cost effective approach to achieving its stated goals. WACOSS recommends that further analysis along these lines be carried-out with alternatives identified to achieve each of the previously-articulated goals of a smart meter rollout.

SMART METERS & EQUITY

WACOSS continues to assert that electricity is an essential service with limited price demand elasticity, especially for low consumption users. While WACOSS readily acknowledges that SMs have the potential to promote gains in the area of network and distribution efficiency within energy markets, such gains also carry the question of how both the costs and benefits for consumers might be fairly allocated, and issues of consumer protection adequately addressed.

¹ Government of Western Australia Office of Energy (December 2007) Electricity Retail Market Review Issues Paper, p.63

² NERA Economic Modelling

³ Griffith University Centre for Credit and Consumer Law Submission on the Smart Meters Cost Benefit Analysis – Phase 1 – National Minimum Functionality

Low-Income Consumers

Many households living on lower-incomes and facing social and other types of disadvantage live in energy inefficient housing and may own older, less efficient appliances. Because of these factors, such households both use more electricity than households not experiencing relative disadvantage, and have a reduced capacity to conserve energy without affecting quality of life to an unacceptable degree.⁴ Because of these factors, WACOSS believes that many households living on lower incomes will have difficulty responding to pricing signals such as critical peak pricing and the time-of-use (TOU) tariffs enabled by smart meters.⁵

Given the variously streamed reports to the SMWG, it is evident that TOU pricing, facilitated by SM, will benefit some consumers and potentially significantly disadvantage others, particularly those with a limited capacity to shift consumption. This potential for inequitable distribution of the potential benefits of SM TOU pricing was acknowledged by many of the participants within the West Australian Smart Meter Focus Group Session (Low Income), which WACOSS attended as an observer in October 2007. Because of the significant potential for inequitable distribution of benefits, WACOSS continues to recommend that neither SM or TOU tariffs be mandated for all consumers, and that the availability of 'flat' tariff options remain, regardless of the presence of a Smart Meter.

Distribution of Smart Meter Benefits

In its report to Work Stream 4: Consumer Impacts, NERA Economic Consulting indicates that while it is expected that there would initially be an increase in electricity tariffs due to the costs incurred in 'rolling-out' smart meters, with cost savings resulting from more efficient business practices subsequently being passed-through to consumers, as they are achieved⁶. That the passing-through of costs associated with the implementation of smart metering will precede any possible, direct flow-through of benefits to consumers highlights the need for additional attention to be paid to the manner in which these benefits are allocated.

WACOSS recommends that subsequent to any future rollout of smart metering technology, additional surveillance of pricing take place to ensure that any efficiencies achieved by retail and network businesses through the introduction of smart meters are passed-on in full to consumers. Additionally, WACOSS also suggests that such reviews of pricing be structures be informed and enforced by appropriate regulatory instruments.

While, in many cases, the potential may exist for consumers to achieve cost savings in the longer term through passed-on savings experienced by businesses, the exact nature and extent of these savings will remain unknown until some time following the implementation of a rollout of smart meters. In the meantime, the recovery of the costs of such a rollout from electricity consumers means that not only do these consumers assume the opportunity costs associated with funding the rollout, but additionally,

⁴ Victorian Council of Social Service 'Fuel Poverty' <http://www.vcoss.org.au/what-we-do/energy-water/fuel-poverty.htm>

⁵ Langmore & Dufty (2004) *Domestic electricity demand elasticities, Issues for the Victorian energy market*

⁶ NERA Economic Consulting, (2008) *Cost Benefit Analysis of Smart Metering and Direct Load Control - Work Stream 4: Consumer Impacts, Report for the Ministerial Council of Energy Smart Meter Working Group*, 29 February 2008

affected consumers burden much of the financial risk, with no certainty of receiving appreciable benefits from the use of such technology.

Given the potential financial risk associated with a large-scale rollout of SM technology, WACOSS recommends that in addition to consumers assuming the cost of such a rollout through higher electricity tariffs, distributional businesses should also be required to carry some of these costs, to be recovered later through business savings. This would not only have the effect of reducing the exposure of consumers to the potential risk of such a rollout, but would also promote additional efficiency in business practices such as ensuring that costs associated with the installation of the meters are kept as low as possible and accurate and transparent pricing arrangements are maintained.

Regulatory and Consumer Protection Concerns

The implementation of a Smart Meters rollout, as defined previously by the SMWG, would have a number of possible functionalities and purposes. WACOSS maintains that the remote connect/disconnect option of smart meters will also require robust hardship regulations are in place for vulnerable consumers. In addition, the potential Pre-Payment Meter functionality which may be a component of future Smart Meters would require the introduction of significant consumer protection regulation to militate against negative outcomes – particularly for disadvantaged consumers.

Following any future rollout of smart metering technology, it is imperative that data regarding the impact of the meters and their effect on energy markets be publicly accessible and transparent. Such public access is necessary to ensure that the impact of such technology on consumers can be monitored and assessed over time and systemic issues be identified not only by state regulators such as the WA Economic Regulation Authority, but also alternative dispute resolution services such as the WA Energy Ombudsman.

Summary

The implementation of smart metering technology has the potential to provide benefits, both to electricity market participants and consumers. At this point in time, however, evidence suggests that these benefits will be distributed unevenly, depending on the location of electricity consumers and the location of the non-consumer electricity market participants. Even within jurisdictions, there is evidence to suggest that the potential benefits of smart metering, such as they have been identified, would be distributed unevenly across different types of households with differing energy needs and usage profiles.

While the case for consumer benefits from smart metering remains unclear, from WACOSS's standpoint, the potential financial risks to consumers are obvious. WACOSS recommends that further investigation take place with a view to ameliorating the risks posed to residential consumers. Where there is not a clear economic, social or environmental case for the introduction of smart meters (such as in greenhouse gas abatement) alternative options should be canvassed alongside that of smart meters.

To assist in the proper assessment of various options, WACOSS also recommends that the goals of smart meter implementation be better defined and articulated, so as to provide a benchmark against which other options may be judged.

Should a large-scale rollout of smart meters take place in the future, it is recommended that appropriate regulation be developed that both ensures that any benefits resulting from smart meters are accrued to consumers and that the effects of such a rollout on consumers are monitored over time.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "CH" with a large, stylized flourish extending to the right.

Chris Hall
President