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Dear Manager,

### **Proposed Amendments to the NEL in relation to Smart Meters**

This brief submission has been prepared by the South Australian Council of Social Service (SACOSS) as part of its Consumer Advocacy Panel-funded *National Energy Market Reform Advocacy Capacity Building Project – South Australia*. SACOSS is the peak body for social services in South Australia, and is an independent non-government organisation with a proud sixty-year history of advocating for disadvantaged and vulnerable South Australians. SACOSS is a not-for-profit independent organisation whose members represent a wide range of interests in social welfare, health and community services. SACOSS is part of a national network assisting low income and disadvantaged people, and shares with its members the vision of *justice, opportunity and shared wealth for all South Australians*.

SACOSS welcomes the opportunity to provide comment on the 2<sup>nd</sup> Exposure Draft of proposed amendments to the National Electricity Law (NEL) in relation to smart meters, and shares the reservations of many consumer advocacy groups regarding the mandated roll-out of smart meters throughout Australia, with particular concerns regarding South Australia. These concerns revolve around 3 key points:

- The initial purchase and installation costs and the impact on low income and vulnerable consumers, and the ambiguous findings of the cost-benefit analysis undertaken by NERA<sup>1</sup> in 2008;

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<sup>1</sup> NERA (2008), 'Cost Benefit Analysis of Smart Metering and Direct Load Control' Phase 2 Consultation Report, February 2008.

- The lack of price signal sent to consumers under some proposed technical guidelines and the associated shifting of the wholesale price peak management onus from retailers to end-users; and
- The need for smart meter legislation to be subservient to a sufficiently robust National Energy Customer Framework (NECF).

SACOSS is of the view that until these issues have been addressed, the mandated roll-out of smart meters in SA is uncalled for and should be reviewed in its entirety.

In this respect, it is disappointing that the consumer impacts of the smart meter roll-out have not been regarded as being of adequate importance, in that the negative impacts are clear and the positive impacts are not. What is also clear from the available data is that consumers on low and fixed incomes are already struggling to keep up with escalating electricity costs, and increasingly resorting to retailer hardship programs in order to avoid disconnection.

In the South Australian region of the NEM, the implementation of full retail contestability (or FRC) saw an immediate jump in the number of concessions customers and an overall rise of nearly 28% from 2003-04 to 2007-08. The take-up of installment plans showed an even more marked increase of just under 120% over the same period.<sup>2</sup> Recent work undertaken by SACOSS has shown that the cost of electricity for a household using 4,900kWh per year has risen by around 11% between March 2006 and March 2009. Moreover, while efficiency gains are possible for some low income households, supply charges have risen by 21.2% over the three-year period to March 2009, offsetting efficiency gains.<sup>3</sup>

In its modeling for the MCE, NERA noted that:

*'The introduction of smart metering is expected to lead to higher tariffs during the initial rollout, with resultant business cost efficiencies in the future that would be passed through in the form of lower bills. This means however that tariffs are expected to increase initially, before the benefits are realised and passed through to customers. This initial impact is therefore an important consideration in the analysis, particularly for vulnerable consumers.'*<sup>4</sup>

Simple calculations show that if the cost of a smart meter (for example, \$400) was to be passed on to the scenario household over the course of a year, it would add an extra 37.25% to the annual bill (after the \$120 state energy concession), or \$7.69 per week. Moreover, it would represent an immediate (although relatively short-term) rise in the fixed costs of electricity, from \$157 per year to \$557. Given that the AEMC Review of Energy Market Frameworks in light of Climate Change Policies shows a clear preference on the part of retailers and the Commission for the pass-through to consumers of additional wholesale electricity costs brought about by the CPRS and RET, additional costs due to smart meter roll-out threaten to sink consumers in a sea of good intentions.

<sup>2</sup> ESCOSA (2008), '2007/08 Annual Performance Report – Energy Retail Market', Essential Services Commission of South Australia, Adelaide, November 2008.

<sup>3</sup> SACOSS (2009), 'Cost of Living Biannual Update No. 1: July 2009', South Australian Council of Social Service, Adelaide.

<sup>4</sup> NERA, p. 66.

While it is clear that smart meter technology will cost SA consumers in the short term, their ability to cut costs in the medium to long term is uncertain according to NERA modeling. While NERA expects that the 'average' consumption household in SA will save 4.1% under a time of use (TOU) scenario, and 7.8% under a DLC and TOU scenario.<sup>5</sup> However NERA qualified these findings by noting the vastly different likely outcome for low income households, who do not have the same level of ability to lower use during peak periods as higher income households. NERA found that this relative inelasticity means a greater proportion of electricity will probably continue to be used in peak periods as a proportion of total consumption, and that this may result in rising rather than lowering costs.<sup>6</sup>

Another point of concern for SACOSS is the potential lack of price signal to consumers. Smart meters of course have the ability to communicate remotely with distributors and retailers and thus can lower costs such as connections/disconnections and meter reading, and this should (within the right framework) lead to lower supply costs. However if the meters that are rolled out do not include in-home screens to convey real-time pricing information, the ability of households to modify their energy use during peak periods will be lessened. SACOSS notes that meters due to be rolled out in the Victorian jurisdiction do not have these screens, and this is a concern given the precedent-setting potentiality of this roll-out. If smart meters are to be rolled-out as mandated, the pricing signals have to be conveyed to consumers in order to facilitate more cost-efficient electricity use and demand management during peak times, particularly in the event of extreme weather events. This is of particular concern given summer temperature events in SA in 2008 and 2009.

Given the likely negative impacts on low income and vulnerable consumers of a smart meter roll-out, SACOSS would like to see any legislation and regulations guiding implementation to be subservient to a robust consumer protection framework, ideally in the form of the NECF. SACOSS would once again refer the MCE to the NERA analysis, and a number of recommendations contained in the Executive Summary regarding consumer issues:

- Consumer protection and assistance programs and hardship policies will need to be modified to accommodate any smart meter roll-out, including identifying households in financial stress and providing information prior to disconnection
- Education programs need to be put in place to ensure that consumers and consumer advocates are cognisant of all the issues around smart metering and their implications
- Allow for switching between tariff products of and when consumers will be better off financially under one than another
- Correspondence to consumers of impending critical peak prices needs to be ensured through consumer frameworks and, if necessary, incentive mechanisms for retailers<sup>7</sup>

In summary, SACOSS believes that smart meters:

- Should not be rolled out until the benefits to all consumers can be demonstrated to outweigh the costs;

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<sup>5</sup> NERA, p. 93.

<sup>6</sup> NERA, p. 93.

<sup>7</sup> NERA, p. viii.

- Should always be accompanied by displays which provide pricing information to allow consumers to change their consumption habits in order to manage price risk; and
- Be accompanied by robust consumer protection frameworks as outlined above.

SACOSS hopes that all of the issues raised in this letter will be considered by the MCE in the course of the legislative review process. It is vital that the real effects of a smart meter roll-out on low income and vulnerable consumers are considered.

If you require further information on any points made in this submission, or require clarification on any points, please feel free to contact SACOSS.

Kind Regards,

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

Karen Grogan  
EXECUTIVE DIRECTOR