SUBMISSION TO

Transition to Metering Competition in Victoria

Options Paper

November 2016

The Alternative Technology Association (ATA), Consumer Action Law Centre (Consumer Action), and Consumer Utilities Advocacy Centre (CUAC) welcome the opportunity to respond to the Energy Policy and Programs Branch of the Department of Environment, Land, Water and Planning's (The Department) Option Paper on the Transition to Metering Competition in Victoria.

The following organisations have also contributed to and endorsed this submission:

- Brotherhood of St Laurence
- Community Information & Support Victoria
- St Vincent de Paul Society

Details about each contributing organisation are contained in Appendix A.

We thank The Department for preparing a comprehensive and thoughtful Options Paper, and for hosting a lively stakeholder forum that provided an opportunity to understand other stakeholders' views and discuss key issues.

Contestable metering in Victoria

The organisations lodging this submission supported the Contestable Metering Rule Change in 2014 because we supported its objectives and, having lived through the contentious Advanced Metering Infrastructure (AMI) smart meter rollout in Victoria, saw a 'soft' rollout driven by consumer demand in a contestable market as a better way to achieve them in other states.[1] Those objectives were:

- *[To]give consumers the ability to:*
  - *access better information about their electricity consumption, which can help them to manage their consumption and associated expenditure;*

[1] CUAC's submissions in response to the Contestable Metering Rule in 2014, supported a voluntary contestable metering approach in other jurisdictions, however, our policy position was that the benefits of the AMI would need to be realised ahead of the introduction of contestable metering in Victoria.

- *have bills reflect their actual consumption profile;*
- *access better data to compare offers from the market;*
- *choose from a wider range of energy products and services, including smart household appliances; and*
- *switch retailers more quickly and choose how frequently they want to be billed, which can help reduce exposure to 'bill shock';*

- *[to] give industry the ability to:*
  - *offer different/innovative pricing, product and service options to consumers, including flexibility in retail tariff options and peak demand pricing;*
  - *gain a better picture of electricity consumption patterns, and be settled in the wholesale market on a consumer's actual consumption, as opposed to the average load profile for consumers in that distribution area;*
  - *access grid management technologies such as outage and supply quality detection;*
  - *create business and system-wide efficiencies, eg through remote meter reads or remote connection/disconnection; and*
  - *better manage the reliability and quality of electricity supply.*[2]

At the time we noted that having had a mandatory rollout at considerable cost,[3] Victoria was in a different position to other jurisdictions. Indeed, *every single one of those objectives has already been enabled in Victoria*. That some of them have not been fully realised is largely due to retailers choosing not to offer innovative products and services and to promote time of use tariffs, and distributors having no incentive (or obligation) to invest in giving third parties access to meter functions. There is nothing else in Victoria preventing retailers rolling out the advanced products and services they claim to be doing with their own meters in other states; or preventing third-party businesses from offering the products and services they have already developed but can't deliver due to inability to access meters or meter data on customers' behalf.

We support the recommendation in the Victorian Auditor-General's Report, *Realising the Benefits of Smart Meters*, with respect to the introduction of metering contestability. Specifically, the report recommended that the Department should identify and implement actions to protect Victorian consumers from additional costs associate with the pending rollout of new competitive metering processes, and ensure that essential AMI program benefits are preserved.

We consider that the primary consideration in the assessment of options should be how to provide customers with the most benefit from the AMI rollout that they have already paid for.

On this basis:

***We strongly recommend that Option 4 is adopted*; with Option 2 considered in the future *only if there is clear consumer benefit* from competition in metering that cannot be delivered under the AMI framework.**

The case has not been made for the introduction of metering competition in Victoria

There has not been a clear case made for the introduction of metering competition in Victoria at this time. Competition is a means of extracting efficiencies in the market and driving innovation,

[2] AEMC 2014, *Expanding competition in metering and related services in the National Electricity Market: Consultation Paper*, 17 April 2014, Sydney: p. 5–6

[3] $2.24 billion according to VAGO 2015 *Realising the Benefits of Smart Meters*, Victorian Government Printer, September 2015.

but is not an end in itself. The ultimate focus must always be what is in the best interest of consumers. In this case, the potential benefits of competition must be measured against the risk that it jeopardises the realisation of existing and future customer benefits from the AMI rollout.

Any cost–benefit assessment is likely to be very different for Victoria than other jurisdictions, as one of the major benefits of opening metering to competition – the acceleration of advanced meter penetration – has already been realised. This exposes Victorian customers to additional risks in any move to introduce metering competition, because there are fewer additional benefits to offset the costs.

The contestable metering framework is predicated on an expectation that the capabilities from advanced meters will be implemented over an extended period, allowing space and time for network businesses, retailers, and metering coordinators to develop efficient arrangements with a low risk of widespread customer detriment. The low penetration of smart meters in other jurisdictions at the commencement of the new rules allows for this process. Victorian customers, having already paid for and received AMI meters, can justifiably expect that promised benefits will be delivered and not be put at risk by new infrastructure systems.

Further, there are some efficiencies inherent in a network-controlled framework that are currently being realised, but are at risk under a competitive framework. For example, advanced meter maintenance services are currently carried out by network businesses within their network zone utilising existing capabilities and infrastructure (linesmen, depots, etc. that are required for general network maintenance). It is not clear how metering coordinators, without the existing maintenance infrastructure and each being required to operate over a larger geographic area (potentially over the entire state, versus the confined regions of the network businesses) could provide these services as efficiently.

At the very least, the Victorian circumstances remove much of the time pressure associated with this change. Given the extent of the unanswered questions on this issue, it is therefore appropriate to take a 'wait and see' approach to the introduction of metering competition, to monitor other jurisdictions, allowing for a thorough assessment of the necessary steps to ensure consumer benefits from the AMI rollout are preserved. Rather than being disadvantaged, Victorian consumers currently have a greater opportunity to realise potential benefits – including access to innovative products – than in other jurisdictions. With a critical mass of advanced meters rolled out in Victoria, there is currently a platform available for retailers to maximise pricing and innovation opportunities that are not (and won't be for some time) available in other jurisdictions under proposed competitive metering specifications.

The introduction of meter contestability at this time is in conflict with other policy objectives

The introduction of competitive metering should be delayed precisely *because* all potential benefits available from the Victorian meter specification are yet to be delivered. The options paper suggests that transitioning to competitive metering at the same time as other jurisdictions will provide national policy alignment. But this argument ranks the instrument above the outcome. Victoria has already rolled out 2.8 million smart meters (at a higher functionality than that required by the other jurisdictions) – it will take years before the other jurisdictions even begin to catch up with smart meter deployment. The reality is that national consistency is unlikely for many years into the future, whether or not there is 'policy consistency'. However, importantly for Victorian consumers, this policy consistency has the

potential to erode yet to be fully realised benefits and consumer protections without delivering additional ones. It also threatens to have a flow-on effect on other policy initiatives that depend on AMI-enabled services – such as the New Energy Technologies Sector Strategy.[4]

The AMI project was predicated on a number of benefits being delivered, including the facilitation of energy efficiency improvements for residential consumers, aiding retail choice and streamlining switching, improving network efficiencies, and reducing the need for costly network infrastructure and generation investment. A number of these are threatened by the introduction of metering competition at this time; as are a number of other energy policy objectives.

Energy efficiency and conservation

The 2011 Cost Benefit Analysis (CBA) estimated that avoided network costs and energy conservation would deliver $778 million worth of benefits between 2008 and 2028, based on a series of assumptions around consumer behaviour relating to the uptake of flexible tariffs and in-home displays (IHDs) connected via the ZigBee-powered Home Area Network (HAN) function of AMI meters.[5] One key assumption was that collectively, 75 per cent of Victorian residential customers would change their consumption behaviour in response to incentives delivered by the AMI rollout.[6] While experience has shown that these expectations were overly optimistic, some retailers are delivering daily usage data to energy-conscious customers, and a small but not insignificant number of customers (according to the VAGO report, at least 17,253 as of 30 June 2014[7]) have installed IHDs that give real-time energy usage information. Daily usage information is known to reduce household energy usage and real-time information even more so.[8]

Retailers' ability to send daily data to customers depends on their access to meter data. Under the contestable metering framework, it is possible that some smaller retailers may be reliant on larger retailers' meters to serve customers, and may face higher charges to receive daily data than they can recoup through competitive price offerings.

Under the current framework, we expect a slow but steady growth in usage of IHDs and other energy information and management devices that connect via the HAN among certain types of customers, including some – customers experiencing hardship – that are unlikely to be able to afford additional metering costs if HAN-equipped meters must be separately procured.[9]

Adopting full metering contestability with or without the national minimum standard for advanced meters would therefore likely inhibit realisation of the AMI project's energy efficiency

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[4] Department of Economic Development, Jobs, Transport & Resources, Victorian Government, March 2016.

[5] VAGO 2015 *Realising the Benefits of Smart Meters*, Victorian Government Printer, September 2015: p. 36

[6] *Ibid.*

[7] *Ibid.* p. 22

[8] For example: The American Council for an Energy Efficient Economy (ACEEE), *Advanced Feedback Initiatives and Residential Feedback Programs: A Meta-Review for Household Electricity-Saving Opportunities*, June 2010; VaasaETT Empower, *The Potential of Smart Meter Enabled Programs to Increase Energy and Systems Efficiency: A Mass Pilot Comparison*, 2011; Centerpoint, *500 Unit In-Home Display Pilot – Mid Program Review*, March 2011; SilverSpring Networks/Oklahoma Gas and Electricity, *Positive Energy Together Results*, 2011; as well as over 50 studies cited by Accenture *Department of Primary Industries: IHD inclusion into ESI scheme*, November 2011.

[9] For a discussion of the benefits of in-home displays connected to AMI meters' home area networks, refer to VCOSS 2016 *Making energy visible: Using smart meters and in-home display units to improve energy efficiency for people facing disadvantage*, Victorian Council of Social Service, Melbourne, April 2016.

objectives, and hamper the government's broader policies to reduce network redundancy and help consumers conserve energy.

More efficient networks

There appears to be a fundamental tension between the stated government policy goal of reducing network costs and introducing metering competition. The Minister for Energy recently intervened in the Limited Merits Review process for the Victorian distribution businesses to contest the 0% productivity factor that the networks proposed in their distribution revenue proposals, on the grounds that network efficiencies enabled by the AMI rollout had not been included in the revenue proposals. These efficiencies are threatened by the contestable metering framework due to the possibility that networks will not be able to access meter data and functionality that enables them. This raises a significant potential for increased distribution charges and thus higher electricity prices for consumers.

Retail choice

Meter installation and replacement is currently a regulated network charge smeared across consumers in a distribution area, involving a cross subsidy for uneconomic provision requirements. Actual metering costs may vary considerably depending on the type of meter and functionalities favoured by particular retailers or meter coordinators and the location of customers. There is a particular risk of customers in regional or remote areas being charged higher meter purchase and connection costs. The higher initial costs and risk for retailers resulting from the need to arrange metering infrastructure for new connections may also limit the offers available to these customers. Supply access for these consumers should be ensured through the 'obligation to supply' for local area retailers requiring connection via metering infrastructure at a reasonable cost. Additional hardship protections may also need to be considered to ensure that vulnerable customers are not left without access to supply.

We see significant potential for consumers renting their accommodation to find themselves unable to effectively switch retailer where they cannot secure permission from their landlord to make physical alterations to the rental property. Advanced meters are considered a 'fixture' of a residence and tenants will therefore require permission from their landlord to churn their meter. It is unclear whether a Metering Coordinator – who effectively 'owns' the meter – will be able or willing to negotiate ongoing access to that same meter with different retailers. This barrier to switching retailer is accentuated by the poor security of tenure facing Victorian renters – any tenant can be evicted with 120 days notice for no reason at all, and with a shorter notice period in several other circumstances. This uncertainty over the length of tenancies limits the length of contracts tenants can sign up to with confidence; and while retail contracts currently tend to allow tenants to continue at a new address, this is less likely when Metering Coordinators will need to recoup the costs of any installed small meter that can't (without further cost) be moved to a new property. This is already an issue with the telecommunications market, where tenants are often liable for exit fees from internet contracts if they have to move while still under contract.

We are also concerned that smaller second or third tier retailers without the resources to procure their own meters may be priced out of the market by access costs charged by larger retailers whose meter remains in a property when a customer attempts to churn.

Some of these issues have already played out in other jurisdictions. We are already aware of one case in which a customer who had received a new meter from a first tier retailer was unable to

switch to the retailer of their choice (a second tier retailer) because the new retailer did not have systems to read their meter. This matter has been referred to the relevant ombudsman.

The AEMC also acknowledges that:

> *Metering Coordinators may bundle advanced metering services in different ways depending on the needs of the customer, which could mean that published prices may be different from actual prices being negotiated, and they will be difficult to compare across different providers. Prices will also vary depending on factors such as volume and risk profile and the specific technical characteristics of the service that is being offered.*[10]

A similar issue is already playing out in New South Wales where one large retailer is charging solar customers an annual fee of around $120 to access the basic feed-in tariff as part of an energy offer that includes a new smart meter, with an extra $120 to receive a higher feed-in tariff. These prices are not disclosed on the retailer's website and it is difficult for customers to figure out what the effective price they will face will be, especially without any existing data about how much they will be exporting to the grid.

Perverse outcomes for customers

If metering contestability was introduced under any of options 1 through 3, some perverse outcomes can be expected with regard to customer costs, the efficiency of meter provision, and the consequences of meter failures.

While there will be an exit fee associated with a new metering provider installing a new meter, this may not be sufficient to prevent the inefficient replacement of capable, working meters—potentially at a significant cost to consumers. Under the contestability framework, retailers are free to pass on any 'exit fee' to the customer. Retailers may have an incentive to roll out meters to their existing customers (e.g. if they can negotiate a more favourable agreement with their metering coordinator than the network businesses), and may push through the cost to their customers. Further, metering coordinators may have an incentive to wear the some of the cost of replacement meters to gain a foothold in the market. While this cost would not be passed through to the customer, it may result in less capable meters being installed should the Victorian metering specification not be retained.

Despite 'opt-out' provisions applying for customers in circumstances where their existing meter is still operational, there is a risk that low literacy or other vulnerable customers may end up with an unexpected additional cost or new tariff arrangement. Given this risk, it may be appropriate to restrict meter replacement to where a meter has failed, or where it is required to provide an additional service offered by the retailer that current metering cannot provide (and the customer has agreed to receive). At a minimum, protections around marketing would need to be introduced, similar to those provided in the UK's Smart Metering Installation Code of Practice.[11]

There also needs to be effective communication to customers of the process of replacing or investigating a fault with a meter, and who is responsible. The customer should only have to make initial contact with either the distributor or retailer. If the party contacted is not

[10] AEMC 2015a *Expanding competition in metering and related services in the National Electricity Market: Draft Rule Determination*, 26 March 2015, Sydney: p. 70

[11] The code, available at: http://www.energy-uk.org.uk/policy/smart-meters/smart-metering-installation-code-of-practice.html, sets out the responsibilities of smart meter installers during an installation visit, including in relation to sales and marketing of related goods and services.

responsible, they (the distributor or retailer) should be obliged to contact the responsible party and get the process underway. A similar approach applies to credit reporting complaints following amendments that came into effect in 2014. Under that arrangement, any complaint to either a creditor or a credit reporting body must be resolved by the party that receives the dispute, regardless of their connection to the dispute.[12]

The framework should also ensure that there are no barriers to the immediate restoration of power following an outage where there are no ongoing safety issues. For example:

- It should be clarified that where an outage involves a meter failure, distributors are not prevented from restoring power prior to the relevant metering coordinator arranging for a meter replacement.
- Retailers should be required to assign a 'provisional' metering coordinator to each connection for which they are the responsible retailer, but not yet responsible for metering services. This will allow for a smoother/quicker metering transition in the event of a meter failure.

Answers to specific questions

Below we provide responses to selected questions from the options paper.

Option 2 – Full adoption with the Victorian metering specification

We do not support Option 2 being adopted

When and if there is a proven consumer benefit to moving to contestable metering, this is the approach we would support. However, as noted above and in further detail below, we do not believe that a case has been made that a contestable metering framework will deliver consumer benefits more cost-effectively and reliably than under the current Victorian framework (with a few necessary adjustments with regard to meter access by other authorised parties).

We note that Victorian consumers already have the potential to fully realise the benefits of smart meters and better manage electricity bills (greater functionality than available in national metering specification). As an alternative to introducing metering competition at this time, the Victorian Government could assist the further realisation of benefits by ensuring (via a regulatory requirement on distribution businesses) that customers can access their interval data directly through Victoria Energy Compare (and through other energy usage tools and resources) so that they can more easily assess retail offers. This would also facilitate more effective consumer participation in the market in general, and thus drive more effective competition.

Q 1. Do you support implementing metering competition in Victoria so that the current Victorian meter specification and/or the minimum service levels are retained?

If metering competition was to be implemented in Victoria, we would support using the Victorian specification and service standards. The additional functionalities enabled by the Victorian specification have concrete benefits to both individual customers and the community as a whole. In particular:

[12] Section 21U, Privacy Act 1988.

- **Auto-disconnect when load found on re-energisation** is a safety feature designed to deliver safety guidelines for manual meter energisation that were introduced in response to actual house fire incidents.
- **Supply capacity control** offers a much better consumer experience than rolling blackouts in times of severe network congestion due to emergencies or overwhelming demand. (We continue to support the Victorian Government's ban on use of supply capacity control by retailers for credit management or to offer a 'basic' service for vulnerable customers).
- **Local access to the meter for customer-owned or -authorised devices** is a valuable customer benefit for connection of real-time energy information or control devices, use by energy auditors, or third-party energy management equipment.[13]
- **Supply quality and fault monitoring** (delivered via a combination of meter functionalities and data analytics) provides significant safety and reliability benefits to customers with supply quality issues and wiring faults.

Importantly, it's difficult to see how these would be reliably delivered by competition if they are not made mandatory by adoption of the Victorian specification. Some are characterised by split incentives: retailers have no need for functionality to purely meet network needs, and it is not certain that all retailers will choose to offer this as a service to networks at a price they can bear. Others (device connection and load control) are not evident to customers until they find themselves in need of them – perhaps through experiencing financial hardship. There is significant potential for the inefficient deployment of metering infrastructure (due to meter churn) as customers adopt extra functionality over time.

The options paper identifies that a disadvantage of Option 2 is the creation of a disparity between meters used in Victoria and other jurisdictions. We would argue that this disparity exists and will be ongoing. We believe that regulatory uncertainty about the future requirements for services specification can be in part alleviated by the Victorian Government setting clear timeframes for a delay in contestable metering including an opportunity to evaluate the outcomes of the voluntary rollout under the national specifications. That is likely to provide a more solid evidence base for decision-making, and certainty into the future. We agree that a disadvantage of changing responsibility for metering has the potential to increase consumer confusion at a time when consumers are still struggling to understand the market and innovative products and services. We also believe that the potential impact of the erosion of societal benefits by the introduction of competitive metering should be fully understood before adopting such a measure.

Q 2. Should other considerations about the respective capabilities of the meters and service levels be taken into account?

The delivery of the AMI meter functionality in Victoria depends on three elements: meter functionality, the communications and IT systems they rely on, and the minimum service level specification. These flow through to other regulatory instruments – for example, the Victorian Energy Retail Code and Distribution Code assume AMI service standards are met.

[13] For a discussion of the benefits of in-home displays connected to AMI meters' home area networks, refer to VCOSS 2016 *Making energy visible: Using smart meters and in-home display units to improve energy efficiency for people facing disadvantage*, Victorian Council of Social Service, Melbourne, April 2016.

In addition, we note that distributors are subject to a guaranteed service level (GSL) regime that drives fast meter replacements when customers are off supply due to a meter fault. If distributors are not responsible for meters, maintaining customer benefit on Victoria will require service standards on metering coordinators for meter replacement in these circumstances in much less than the ten days allowed under the National Electricity Rules (NER).[14]

We note that the introduction of three-way communication between retailers, metering coordinators and the additional negotiations required for commercial agreements between meter coordinators and distributors would likely add significantly to operational costs and be passed on to consumers.

In the longer term, further work should be undertaken to understand the implications of any future move to introduce metering competition with the Victorian or national metering specification. There is currently insufficient information to judge the appropriate option for Victoria, including in relation to:

- the value of the additional services that can be provided under the Victorian metering specification
- the cost of providing those additional services, including meter costs and any associated IT/communications infrastructure and required service standards, under both the current distributor controlled model and under a competitive model
- the workability of any arrangement to ensure network businesses can continue to access the data required to provide these services, noting that this should be guaranteed through the framework to prevent erosion of consumer benefits (particularly 'societal benefits' that may not be accurately priced by the market)
- any difficulties in acquiring meters to the higher specification that may impact on overall efficiencies being achieved (i.e. can the functionality be 'bolted on' to meters that otherwise meet the national standard, or are completely separate assets required?)
- any alternative options for achieving the additional benefits (e.g. network control devices), and the cost of these options.

We consider that, subject to a cost/benefit analysis being undertaken, the Victorian meter specification should be maintained under any framework to prevent an erosion of consumer benefits from the AMI rollout. This should include a continuation of the requirement for customers to have a communicating smart meter.

The alternative options to transition

Q 3. Do you have any comments or views on Options 1, 3 or 4?

We strongly recommend that Option 4 is adopted

We support the recommendation in the Victorian Auditor-General's Report, *Realising the Benefits of Smart Meters*, with respect to the introduction of metering contestability, that Victorian consumers be protected from additional costs associated with the pending rollout of new competitive metering processes and that essential (AMI) program benefits are preserved. These objectives are best met through the adoption of ***Option 4*** at this point in time. The value

[14] Clause 7.8.10 (a).

of the network management and safety benefits, and the potential value of the thus far under-utilised customer-facing features that will underpin growth in the emerging behind-the-meter energy products and services industry, is too great to be risked through the adoption of an untested contestability framework. This is particularly the case when there is still no clear evidence of customer benefit from the framework in an environment where customers already have access to advanced metering infrastructure.

Options 1 through 3 all pose the risk that electricity distributors may be unable to negotiate for access (at a reasonable price, or at all) to smart meter information from Metering Coordinators. We believe the issue of data availability for managing peak demand, network planning to accommodate renewable energy, and the provision of data to consumers to assist in evaluating product and service options are outstanding system matters that should be addressed as a priority ahead of introducing meter contestability.

We would support Option 2 in the future only if it is clear that it can bring consumer benefits that can't be delivered under the AMI framework – noting that if it is only access to meter data and services by retailers and third parties that inhibits consumer benefits, this can be delivered by adjustments to the existing AMI framework.

We consider Option 3 unnecessary, because if there is consumer benefit in metering competition, it should be responsive to consumer demand and not limited to new and replacement installations.

As previously stated, we cannot support Option 1 without clear evidence that the benefits from the additional functionality under the Victorian specification and service standards (as discussed above) will not be jeopardised by the adoption of the lower national metering specification.

Implementation safety and accreditation issues

Safety issues are vitally important. The AMI rollout developed specific safety requirements with the input of government, regulators, industry, and consumer advocates and we consider that current best practice service provision by distribution networks must not be put at risk under any framework changes.

Victoria's distribution functions including safety are supported by a licensing framework with clear regulatory accountability and oversight. We are not confident that community safety could be assured under options 1 or 3 by the proposed introductory date. We believe that in addition to a comprehensive regulatory review, the development of business-to-business systems would be necessary to protect Victorian consumers.

Q 4. Under Option 2, what additional measures should Victoria take in relation to meter installation and wiring safety, the safety associated with the use of the remote reconnection services enabled by smart meters, and community safety?

In the event that Option 2 is adopted, state-specific regulation with relevant requirements must be in place to allow for the continuation of current safety practices, regardless of who owns and operates the meters. This requires consideration of the appropriate functionality specifications, service standards, and communication requirements. Provision of these services should be mandatory, rather than left to the market. All parties involved in the delivery of safe meter installation and wiring must be adequately accredited, trained, and subject to safety monitoring and enforcement. Any change of responsibility from licensed distribution businesses to meter

coordinators (and other parties) would require careful regulatory transition through arrangements such as an access regime. We disagree with the AEMC's decision to only consider the need for an access arrangements after three years of operation: that raises an unacceptable risk of consumer detriment from any market failures that emerge. A strong access system should be in place before meter contestability is introduced.

We draw your particular attention as an example, to the obligations of parties under the relevant retail and distribution codes to those consumers dependent on life support.

Consumer engagement

Consumer engagement is fundamental to achieving the benefits available from smart metering, especially in Victoria. The experience of the AMI rollout showed the community uncertainty and fear – and the political backlash – that can result when consumers do not understand the reasons for, or process of, changes, particularly technological ones. If metering competition is enabled in Victoria, consumer engagement could result in a lose–lose situation. If engagement is poorly handled, we could see a repeat of the fear-mongering and mythologising that accompanied the AMI rollout. Even if well done – and Victorian consumers are convinced that the new metering arrangements will provide them new opportunities or lower costs – they are likely to question the messaging provided as part of the AMI rollout, and the benefits they have derived. It's difficult to see a good outcome here under a change to a competitive framework. More benefit could be achieved by focusing on realisation of the as yet unrealised benefits of the AMI rollout, and communicating these effectively to consumers.

Q 5. Under Option 2, which party or parties should be responsible for communicating the changes to metering arrangements to consumers, and should there be any communication role for the Victorian government?

If Option 2 is adopted, the introduction of competitive metering would be a significant change that has the potential to create confusion and concern among Victorian consumers. A crucial lesson from the AMI rollout in Victoria was that consumers developed a high level of mistrust and resistance because the messages delivered in an 'industry led rollout' failed to articulate the government's policy purpose or societal vision. There was a lack of transparency on cost and the aims of the rollout. The original communication strategy failed to articulate the social good benefits, individual costs and benefits, and timeframes for delivery. The result was a moratorium on the rollout until the government could introduce an independent communications and education campaign with public messaging via television, radio, newspaper and website campaign media to encourage consumer trust and confidence prior to restarting the rollout. In particular the campaign had to focus on key consumer concerns regarding safety and privacy. Specific programs were developed to target the needs of vulnerable consumers.

Nevertheless, market research conducted in early 2014 found that:

- "two-thirds of Victorians do not understand what the benefits of smart meters are;
- many are still unaware of the link between their smart meter and saving money on their electricity bills; and,

- [a significant minority of Victorians—almost one in 10—still] have a negative perception of smart meters due to misinformation and a lack of understanding."[15]

Moreover, the recent Energy Consumers Australia Energy Consumer Sentiment research found that 38 percent of Victorian consumers *are unaware that they already have smart meter*,[16] and that 23 percent of consumers would like a smart meter in the future.[17]

It is clear that the introduction of metering contestability in Victoria has significant potential to cause further confusion for these consumers which might be exploited by retailers. *Relying on retailer marketing alone for consumer information about this change is not in the interests of consumers*, as retailers' interest in contestable metering is in gaining and retaining customers, and safeguarding (and increasing) their margins. The Victorian Government would need to proactively develop a significant public education campaign to prevent consumer detriment if any form of metering contestability is adopted: providing an authoritative source of information (communication and education) against which consumers could assess retailer or third party (meter coordinator) offers and claims. This would need to include consumer options and independent technical information to help their informed decision-making.

If metering contestability is introduced, Victorian consumers will need to understand:

- why it is being introduced;
- how the new system works;
- what the technology offers;
- who the new parties are and what their obligations are;
- what customer protections apply; and
- what options they have when they move or churn, what costs apply, whether these costs are regulated, and when and how they must pay.

In addition, vulnerable consumers are indeed most vulnerable when facing immediate decisions about replacing a meter and how they might pay. As discussed above, there is a risk that vulnerable customers could unexpectedly become liable for significant costs for metering changes they do not need. Targeted communication and strong regulation and enforcement will be required to adequately protect their interests.

More work would also need to be done to expand the functions of Victorian Energy Compare and promote it as an independent resource to assist choice and decision making regarding retail offers including metering components. Choice of meter function as part of an offer would place an additional burden on consumers who already struggle with the complexity of the energy market and choice with the potential that consumers will make decisions without fully understanding them and not in their best interests. It would be difficult for consumers to evaluate meter specific and installation costs particularly if these are bundled in a retail offer.

Realising the expected AMI societal benefits and access regime

Many of the AMI benefits are already being delivered, such as:

[15] VAGO 2015 *Realising the Benefits of Smart Meters*, Victorian Government Printer, September 2015: p. 23

[16] Energy Consumers Australia, *Energy Consumer Sentiment Survey*, July 2016, 21.

[17] *Ibid.*

- networks monitoring quality and safety issues;
- faster customer transfers and connections; and
- consumer access to more granular energy usage information in most network areas to assist retail choice

Other potential benefits have been unrealised not due to the limitations of the AMI meters, but because of split incentives. For example, third party businesses developing service offerings to analyse customers' energy usage and recommend cheaper energy offers[18] have been limited by the lack of an appropriate framework to access meter data on a customer's behalf.

Retailers' claimed inability to deliver smart meter-dependent products and services in Victoria has not been substantiated so far; if we assume these claims are correct, the only feasible barrier is a lack of access to meter data and functionality. An access regime within the current Victorian framework would address this, and also address the real issues facing third parties.

Whoever is responsible for the meter will commission hardware and meter services to meet their own needs, and serve their primary customer. While they *may* choose to procure meters capable of meeting other parties' needs to also sell services to those parties, it cannot be relied on. If there is societal benefit in ensuring that, for example, networks can monitor quality and safety issues at the meter and third parties can access meter data on customers' behalf to help them better navigate the retail market (something retailers presumably have little interest in facilitating), access rights for a range of parties need to be established. It follows, then, that under *any* of the options, a framework for access rights to parties other than those responsible for the meter will be necessary. In developing an access framework, regard should be had to the draft recommendations of the Productivity Commission's review of *Data availability and use* in relation to data access.[19]

The options paper lists a number of challenges to implementation of Option 2 to ensure the safe operation of last gasp messaging, auto disconnect and electric shock prevention are continued, perhaps through an access regime. We agree that in the event that this option is adopted then such an access regime will be necessary to prevent unintended safety issues arising from metering competition. However, we also note that this is a significant change in obligation and performance for retailers and third party providers. Such a change will require significant transformation of business models and systems, and staff training. Moving too quickly to implement this may have a significant impact on consumer outcomes.

Q 6. Under Option 2, would the introduction of access regulation for metering services in Victoria provide greater benefits than costs to Victorian households and small business?

Because of the split incentives discussed above, access rights for a range of parties will need to be provided for under any of the options. We are not in a position to estimate the costs of an access regime. But the benefits of ensuring access to meter data by a number of parties are significant – and the risk that access will be confounded without some kind of instrument to guarantee access rights at reasonable cost is considerable.

Victorian distribution businesses have used AMI meter data and functionalities to deliver a range of network management, safety, and customer benefits, many of which were not

[18] For example https://www.energytailors.com.au/

[19] Productivity Commission, *Data availability and use*, draft report, October 2016. http://www.pc.gov.au/inquiries/current/data-access/draft

anticipated before the AMI rollout.[20] The ongoing realisation of these is clearly a societal benefit. We are confident that some retailers will procure meters that can provide the data and functionalities that distributors require for network management and quality and safety monitoring, in order to sell them that service. We are equally confident that others will not; and not at all certain that the cost to distributors of purchasing these services from the retailers who sell them will result in better outcomes for consumers in the long term. Even where access is available at a cost amenable to distribution businesses, *there is a significant risk that data access negotiations will simply add another cost layer which will ultimately be paid for by consumers*. Access regulation that stipulates access rights for different parties and regulates costs for essential access services will provide significant societal benefit.

Significantly, the AEMC has foreseen this issue, noting in the final determination *Expanding competition in metering and related services* that:

> *Any Metering Coordinator, regardless of its ownership structure, has an incentive to charge as high a price as it can for the provision of metering services to third parties. They will also have some degree of market power, particularly in situations where a third party cannot choose an alternative Metering Coordinator at a particular premises.*[21]

To address these concerns, the AEMC developed the following provision:

> *If Victorian DNSPs are replaced as the Metering Coordinator and are unable to reach an agreement with the new Metering Coordinator to access equivalent services through the new metering installation, they will be able to use the meters they installed as part of the AMI program as network devices. This option will allow the expected benefits of the AMI program to be realised even if a new Metering Coordinator is appointed and decides to install its own meter before the AMI meter reaches the end of its useful life.*[22]

This provision explicitly acknowledges that the introduction of competitive metering may impose significant barriers for distributors to access the necessary data from smart meters to run their networks. Where a distributor is forced to rely on the existing AMI meter as a network device to cost effectively access network data, this will result in a clearly inefficient duplication of assets. Where distributors are able to negotiate contracts with Metering Coordinators, the cost to access network data will be passed through to consumers as a higher distribution charge.

Moreover, the AEMC notes a potential for a 'hold-up problem' for distributors accessing their data:

> *This would occur where a DNSP had successfully negotiated for access to services provided via a particular metering installation, invested in systems on that basis, and the Metering Coordinator then churns. DNSPs are concerned that the new Metering Coordinator may charge a much higher price for continued access, knowing the DNSP has already incurred costs and relies on continued access. Consequently, they expressed concern that they would not have an incentive to make investment decisions that relied on secure access to data and functions via a meter at a certain site.*[23]

We are very uneasy about this potential outcome. The VAGO report notes the 2011 CBA estimated a total of $970.78 million of benefits derived from cost savings and efficiencies in

[20] The Department lists numerous examples of these in section 3.2.1 of the options paper.

[21] AEMC 2015b, *Expanding competition in metering and related services: Final Determination*, 26 November 2015, Sydney: p. 79

[22] AEMC 2015b *op. cit.* p. 88

[23] AEMC 2015b *op. cit.* p. 467

network operation over 2008—2028 based on a series of assumptions that rely on distributors accessing advanced meter data.[24]

Retailers could also face issues around negotiating use of installed meters with a Metering Coordinator that has a degree of market power. As a worst case scenario, some Metering Coordinators may charge the new retailer just less than the full costs of providing and installing the meter, as well as the ongoing costs of providing metering services. This could result in a duplication of the costs of meter provision for a consumer, making it difficult for a new retailer to develop a bundled energy and metering product that was sufficiently attractive to entice the consumer to switch. This scenario could therefore create a barrier to switching in the retail energy market.

To facilitate significant system change for the introduction of Full Retail Contestability and the AMI rollout, the Victorian Government supported the establishment of ongoing forums between the industry parties (and with some limited consumer input) to oversight the business-to-business systems necessary to ensure the integration of service. We suggest that moving to new metering systems and accountabilities should be subject to this kind of detailed process as incentives for collaboration are diminished.

Serious consideration should also be given to how Victorian energy consumers would assess a decision by the Victorian Government to move to contestable metering where:

- the rollout has so recently been completed
- it is in the final year of AMI metering charges
- it may involve duplicate meters, one to support network data and another to facilitate their supply options, potentially where customer access to data is still limited.

Q 7. Under Option 2, will the introduction of access regulation for metering services in Victoria assist in preserving unrealised projected benefits attributed to the Victorian smart meter rollout (please quantify any benefits)?

Under Option 2, some form of access regulation will be needed to preserve the network management, monitoring of quality of supply and safety benefits. As noted above, we are not confident that universal, dependable access for networks to periodic and real-time data can be guaranteed without it.

Under any option, some form of access regulation is needed to fully enable the benefits of consumers' ability to monitor and control their electricity use, and give consumers greater choice in the energy market. The evolution of the energy market has seen growing diversity of energy products that can be provided by third parties in direct or indirect competition with retailers. Retailer control over meter access will be anti-competitive without some sort of access regulation obliging them to give access to authorised parties.

The AEMC notes:

> *Where a Metering Coordinator is closely affiliated with a retailer, it may have an incentive to deny or frustrate access by energy service companies to its functionality and data because:*
>
> - *managing a consumer's energy consumption, and in particular reducing it, may conflict with the retailer's core service of supplying energy to its customers. The Metering Coordinator may perceive that denying access would increase, or prevent a decrease in, the retailer's profits; or*

[24] VAGO 2015 *op. cit.* p. 47

- *the retailer also wishes to offer such services to its customers.*

This could then provide incentives for the Metering Coordinator to do one or more of the following:

- *choose to deliberately charge the energy service company for access to metering services at a price well above costs, if it perceives this will advantage the parent retailer. This could mean that the minimum price that the Metering Coordinator could be willing to accept for supplying metering services to a new energy service company would be higher than the minimum price acceptable to an alternative Metering Coordinator;*
- *offer lower quality access to metering services by, for example, offering overly restrictive terms such that the energy service company is unable to access metering services during certain times of the day, eg peak demand periods where demand management services are most attractive to consumers; and/or*
- *deny access completely or frustrate access by delaying negotiations.*[25]

The AEMC suggests that if consumers value these services, they will choose a retailer that provides the energy service access to their data. This is not a satisfactory outcome, as the need to change retailer before being able to access the services of a third party provider presents a significant barrier to competition. Further, in the case of switching services – such as *Energy Tailors*, who earn their commission when they switch a customer onto a cheaper market offer – retailers will have no incentive, financial or otherwise, to provide these companies with access to a customer's data.

We are not able to quantify the benefits of access regulation at this time but believe this should be quantified and assessed by The Department prior to adopting metering contestability in Victoria.

Q 8. Under Option 2, are there services that Metering Coordinators will not be able to provide that are currently being provided by electricity distributors? If so, what information and/or services will the electricity distributors need to obtain from Metering Coordinators in order to continue to realise these benefits?

Victorian distribution businesses currently provide faults identification services for meters, for behind-the-meter solar and battery installations (and, to a degree, household wiring), as well as for network faults. This is done by ongoing monitoring of meter data as well as (in the case of network fault identification) by interrogating data aggregated at the transformer or substation level using dedicated analysis software. It is not clear whether Metering Coordinators will be able (or willing) to perform the individual meter monitoring role; it *is* clear that the analysis of aggregated data will be beyond them, as it is extremely unlikely that one Metering Coordinator will be responsible for every meter on a substation or feeder. This important network management service can only be provided by distributors with access to all meter data in a node or zone – and can thus only be delivered via guaranteed access rights to real-time data.

Q 9. If an access regime is introduced, who would be the responsible regulator and how should it be funded?

Establishment of an access regime would need to contemplate the relevant Victorian Government legislation, ministerial orders, and orders in council. This would also require a review of the framework regulated by the Essential Services Commission including the licensing framework; codes such as the Energy Distribution Code, Energy Retail Code, Electricity Customer Metering Code, and Electricity Customer Transfer Code. It is anticipated that the

[25] AEMC 2015b *op. cit.* pp. 480–481

relevant metering regulations and protections would transfer to energy retailers and metering coordinators under the Victorian regulatory framework.

It is not clear whether Metering Coordinators in the Victorian jurisdiction would require a licence to operate in Victoria (including license fees) or whether an authorisation process would be anticipated under the Australian Energy Regulator (or both).

Cost of access matters are likely to reside with the Australian Energy Regulator as the current economic regulator of Victorian network services including AMI charges (ending in 2016).

Q 10. What is the role for the Victorian Government in ensuring that the potential and benefits of energy data are unlocked through this process, including ensuring electricity distributers have appropriate access? Are there other mechanisms, other than the 'traditional' access regime model, that could be utilised?

We believe that there is a clear obligation for the Victorian Government to ensure that the benefits of the AMI rollout are realised. Prior to the introduction of metering contestability, the Department should ensure that there is full consultation with relevant stakeholders, including on the design of an appropriate access regime. We suggest that a Ministerial Advisory Committee should provide advice to the Minister for Energy on these issues and that access matters may be best considered by the reconstitution of the implementation working group including industry and consumer representation.

Mandatory or opt-out

Q 11. Should Victoria vary its current policy position that smart meters are mandatory and households and small business to opt-out of having a communicating smart meter?

Many of the identified benefits flowing from smart meters rely on communications technology. Customers opting out of having a communicating smart meter on any significant scale would diminish the value of processes currently undertaken by network businesses, including network management, safety and remote energisation. Given the benefits that flow from a fully communicating network, and that this requirement is already in place, there is little rationale for a change in approach at this stage.

There have been a number of changes to this policy over the period of the rollout. To realise the societal benefits the policy should remain that advanced meters remain mandatory for households and small business.

The "small customer" threshold

Q 12. Do you support setting the small customer threshold at 160 MWh rather than 40 MWh as suggested by the AEMC? If not, please provide a reason.

We support retention of the current small customer threshold of 160 MWh as it is consistent with the Victorian regulatory framework.

Regulatory changes for implementation

As outlined under Question 9 we consider that there will need to be an extensive review of regulatory arrangements required for the change of responsibility and accountability under any introduction of contestable metering. We also anticipate that business-to-business rules would

be required for a safe conversion. The National Energy Retail Rules should be used as a basis for the review.

Q 13. What regulatory changes would be needed to implement Option 2, and what considerations attach to these changes?

As previously stated we do not support Option 2.

There appear to be a number of unresolved regulatory issues affecting consumer outcomes that need to be addressed. These should be fully explored prior to any final decision on whether, and when, to move to competitive provision of metering. Some issues include:

- What are the required service standard obligations for metering coordinators to rectify meter faults and meet current guaranteed service levels?
- Maintenance of current distribution practices related to the safe installation of meters, including assessments of household wiring and asbestos, and for assessing re-energisation risks (e.g. live earths).
- Risks around access to new products and services for all consumers, including potentially 'uneconomic' customers and renters.

We are concerned that the tight timeframe for implementing any agreed framework for a 1 December 2017 commencement may increase the risk that framework issues will not be adequately resolved.

As stated previously moving to Option 2 will not allow the full realisation of AMI benefits.

Q 14. With metering competition commencing on 1 December 2017, what timing issues does the Victorian Government need to be aware of, and how might these be managed?

A 1 December 2017 start date for metering contestability is unlikely to provide sufficient time to:

- implement regulatory arrangements with effective Victorian specific requirements around service levels and access, and
- allow businesses to develop the necessary communications and IT systems, and source metering assets.

It would be preferable to delay introduction of the new framework until these matters have been resolved.

A December start date may also pose issues around reduced staffing within energy retail and distribution businesses, EWOV, and the regulators over the Christmas/New Year period. There is likely to be a period of increased customer engagement required from all these stakeholders during the initial phase of the new framework – especially because the increase in construction completion just before Christmas will lead to a spike in new meter installs. For all these reasons, this start date places an undue risk on consumers. If metering contestability is introduced in Victoria it would be better facilitated by a start date between February and November.

Q 15. Are there any other factors or conditions that should be considered to successfully implement metering competition in Victoria?

We have addressed a number of major considerations in the foreword to this submission.

Aligning metering competition policy with exempt selling provisions

The Victorian Government is currently considering changes to the General Exemptions Order including exempt selling protections.[26] Separately, the Essential Services Commission is considering modernisation of the energy licensing framework. We urge the Department to consider these policy matters in conjunction with this review. CUAC and Consumer Action have conducted research which has identified gaps in the customer protection framework for consumers in exempt selling networks as a result of metering exemptions and the impacts of a transforming market on consumers.[27] Customers of exempt sellers are commonly denied the benefits of choice as their meters are exempted from National Electricity Market and National Meter Identifier (NMI) requirements. We note that third party meter providers already operate within the exempt selling framework and that an opportunity exists for evaluating consumer/market impacts.

Conclusion

Thank you for the opportunity to respond to the Options Paper on the Transition to Metering Competition in Victoria. If you wish to discuss anything raised in this submission further, please contact Dean Lombard, Senior Energy Analyst, ATA at dean@ata.org.au or on (03) 9631 5418; or Ed Mayne, Senior Policy Officer, Consumer Action at ed@consumeraction.org.au or on (03) 8554 6945.

[26] Department of Economic Development, Jobs, Transport, and Resources (DEDJTR), *Review of the General Exemption Order Issues Paper*, 2015; ESC, *Modernising Victoria's Energy Licence Framework – Issues Paper*, June 2015

[27] Consumer Utilities Advocacy Centre (CUAC) and Consumer Action Law Centre (Consumer Action), *Submission on the General Exemption Order Draft Position Paper*, August 2016.

Appendix A: About the contributors

The Alternative Technology Association

Founded 36 years ago, the Alternative Technology Association (ATA) is a national, not-for-profit organisation whose 6,000 members are (mostly residential) energy consumers. About 2,500 of our members are Victorian. Our extensive experience in energy policy and markets informs our advocacy and research which, amplified by our close collaboration with fellow members of the National Consumer Roundtable on Energy, makes the ATA an important voice for energy consumers Australia-wide. ATA has a uniquely twofold perspective as a consumer advocate. With the continuing support of the Energy Consumers Australia (and formerly the Consumer Advocacy Panel) we represent all small energy consumers in advocacy that seeks to improve energy affordability and the structure and operation of the National Energy Market (NEM). Additionally, we speak with authority on behalf of the growing portion of the consumer base that has an interest in new and emerging energy technologies.

ATA's engagement in this process is part of a project funded by Energy Consumers Australia (www.energyconsumersaustralia.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas. The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

The Brotherhood of St Laurence

The Brotherhood of St Laurence (BSL) is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s.

Based in Melbourne, but with a national profile, the BSL continues to fight for an Australia free of poverty. We undertake research, service development and delivery, and advocacy with the objective of addressing unmet needs and translating the understandings gained into new policies, new programs and practices for implementation by government and others.

Community Information & Support Victoria

Community Information & Support Victoria is the peak body representing local community information and support services representing 60 community-based, not-for-profit agencies, staffed by over 300 paid staff and in excess of 3,000 volunteers.

Our local services assist people experiencing personal and financial difficulties by providing information, referral and support services including Emergency Relief, financial counselling and financial literacy. Our agencies provide free services to an average of 300,000 people every year.

Consumer Action Law Centre

Consumer Action is an independent, not-for profit consumer organisation based in Melbourne. We work to advance fairness in consumer markets, particularly for disadvantaged and vulnerable consumers, through financial counselling, legal advice and representation, and policy work and campaigns. Delivering assistance services to Victorian consumers, we have a national reach through our deep expertise in consumer law and policy and direct knowledge of the consumer experience of modern markets.

Consumer Utilities Advocacy Centre

Consumer Utilities Advocacy Centre (CUAC) is a specialist consumer organisation established in 2002 to represent Victorian energy and water consumers in policy and regulatory processes. As Australia's only consumer organisation focused specifically on the energy and water sectors, CUAC has developed an in-depth knowledge of the interests, experiences and needs of energy and water consumers, in particular those from low income, disadvantaged and rural communities. CUAC's policy positions are informed by evidence based research.

St Vincent de Paul Society

The St Vincent de Paul Society is a respected lay Catholic charitable organisation operating in 149 countries around the world. Our work in Australia covers every state and territory, and is carried out by more than 65,000 members, volunteers and employees. Our programs assist millions of people each year, including people experiencing poverty and homelessness, people living with mental illness, migrants and refugees, and women and children fleeing family violence.