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National Electricity Market Campaign

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Submission to NSW Government

NSW Smart Meter Task Force

Directions Paper

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Total Environment Centre's National Electricity Market Advocacy

Established in 1972 by pioneers of the Australian environmental movement, Total Environment Centre (TEC) is a veteran of more than 100 successful campaigns. For nearly 40 years, we have been working to protect this country's natural and urban environment, flagging the issues, driving debate, supporting community activism and pushing for better environmental policy and practice.

TEC has been involved in National Electricity Market (NEM) advocacy for eight years, arguing above all for greater utilisation of demand side participation — energy conservation and efficiency, demand management and decentralised generation — to meet Australia's electricity needs. By reforming the NEM we are working to contribute to climate change mitigation and improve other environmental outcomes of Australia's energy sector, while also constraining retail prices and improving the economic efficiency of the NEM — all in the long term interest of consumers, pursuant to the National Electricity Objective (NEO).

NSW Smart Meter Task Force

TEC appreciates the opportunity to make a submission to the NSW Smart Meter Task Force.

As the Discussion Paper notes:

A range of inquiries into the National Electricity Market has determined that an effective way of managing some network costs is through demand-side management to strengthen the participation of the consumer.

This is an exciting period of reform of our electricity system, and we are encouraged that the NSW Government is considering the issue of smart meters. We provide our comments to the questions asked in the Discussion Paper below.

What are the most important benefits smart meters can provide to more efficiently and effectively manage the consumption of electricity?

Smart meters will provide a range of benefits to consumers, and to the wider electricity market. They are an essential part of transition to a low carbon electricity system. Smart meters can:

- Provide the tools for more efficient utilisation of the distribution network, smoothing peak demand. This will reduce the need to augment the network to cope with peak loads, saving consumers money.
- Allow retailers to offer more innovative tariffs based on time-of-use (ToU).
- Allow consumers to see more accurate price signals and vary their electricity usage accordingly.
- Eliminate the need for manual meter reads and the estimation of bills.
- Improve fault detection and thereby increase reliability.

Are there other tools or management options that should be considered and implemented together with smart meters or as an alternative?

We do not consider there to be an alternative to smart meters, in that their functionality cannot be replaced. However, we see smart meters as part of a package of measures for improving our electricity system. As such, there are a range of options that should be implemented alongside smart meters.

Most importantly, the electricity market needs urgent reform in the way it regulates and incentivises the companies that run the distribution lines: Ausgrid, Endeavour Energy and Essential Energy. This is because they are currently incentivised to distribute more electricity and build more poles and wires, rather than invest in demand management (DM).

Victoria provides us with an example of how smart meters will be underutilised unless the underlying framework is changed. In 2011 the Victorian distribution business only made use of approximately \$1 of every \$20 of the generous incentives available to them for implementing more effective ways of dealing with peak demand than building infrastructure. This was in spite of the latent smart meter functionality in that state, which provides the opportunity for distribution businesses to trial new technology.

Until this issue is resolved, it is likely that we will see substandard efficiency in the delivery of energy services to NSW consumers. We therefore urge the Final Paper to acknowledge the need for broader reform in this area.

We propose reform of the economic regulation of network businesses, and demand management targets, which would allow the regulator to penalise network businesses that do not utilise current incentives to further smart meter deployment.

Are the principles that the Task Force will recommend to the NSW Government appropriate?

The principles identified are broadly acceptable, though there are some issues to be resolved. Firstly, regarding the question “why should customers pay extra for something that should reduce costs?” We feel that it is crucial to be precise when speaking about costs. While we believe that consumers should not have to pay a *net* cost for the introduction of smart meters, it is also true that there is likely to be some additional costs in the short-term. Smart meters are an essential part of a future energy system and some initial costs are justified, particularly given the likely savings over the long-term, but they must be managed so as to not impact harshly upon low-income consumers or create consumer mistrust of smart meters.

We are very pleased to see that the Task Force realises that smart meters are necessary, but insufficient alone, to better manage demand. We would like to see this principle be taken further in the Final Paper, not only acknowledging that “Deeper, long-term cuts in demand require more active cooperation and partnering between retailers, networks and consumers”, but also that government has a responsibility to reform electricity market frameworks to better encourage demand management activities.

Is the Task Force correct to recommend a market-led rollout of smart meters with a level of Government support as the best possible option?

We do not have a strong opinion regarding the efficacy of government-led and market-led rollouts, so long as the approach taken is holistic, consumer-centred, and results in substantial uptake. On the one hand, we understand that the difficult experience in Victoria may mean that Australian consumers would be sceptical of a government-led approach, but on the other we do not believe that network businesses are sufficiently incentivised to undertake such a rollout, or that consumer appetite is currently strong enough to support it in the absence of government intervention.

Regardless of the approach taken, cooperation between stakeholders is crucial to ensuring successful rollout. In addition, it will be important to ensure the standardisation of hardware, software, communication procedures etc. because NSPs, or competitive meter operators, deploying different types of meter with different technology and standards could hinder future development. This standardisation is likely to be easier if a cooperative approach is taken.

Assuming the Final Report recommends the market-led approach, it should also set out the continued role for Government. Even in a market-led approach, the Government will be responsible for:

- providing an overall regulatory framework which is broadly supportive of innovative new technologies and demand management;
- ensuring that NSPs are provided with the right drivers and incentives to ensure an efficient and effective smart meter rollout;
- ensuring consumer acceptance of smart meters through engagement and education;
- ensuring overall efficiency in smart meter rollout;
- involvement in the tariff setting process, including deciding whether to mandate ToU pricing;
- protecting consumer privacy by developing a robust privacy policy and data security standards;
- protecting vulnerable consumers from unduly high rate increases caused by ToU pricing.

The Task Force recommends that the wider introduction of smart meters need not automatically be linked to the introduction of a mandatory retail or network time of use prices in NSW. Will this minimise adverse social impacts or will it remove an important pricing reform available to consumers to manage their electricity use?

It is our opinion that smart meters should be linked to mandatory ToU pricing, otherwise there is a risk that smart meters, once installed, will be underutilised. Our strong preference is to see mandatory ToU implemented alongside smart meters, with an opt-out provision in place for vulnerable consumers.

Is there sufficient community awareness/confidence in smart meters to facilitate a market-based approach?

We think that, at present, there is not sufficient community awareness or confidence to allow a market-based approach to proceed, without considerable investment in consumer education. Australian consumers have historically been used to very low electricity prices, and have not yet adjusted to the emerging reality of high and rising prices. Consumers are likely to be sceptical, both of the initial outlay and of having to pay more for electricity at times they use it most. This is going to require a cultural shift over time, with significant government investment in education and other incentives, such as rebates for

appliances that can communicate with smart meters, e.g. Air conditioners that cycle at times of peak demand.

Would a slow take-up undermine any impact smart meters would have on the cost of supply?

A slow uptake rate of smart meters will certainly impact the rate at which positive outcomes will be seen. In short, the wider spread smart-meters and ToU pricing are, the greater downward pressure on prices. That said, networks are highly location dependant, such that in highly constrained areas, the impact of smart meters may be noticeable with relatively small numbers of smart meters, compared to an area where there is ample network capacity.

Yours sincerely,



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