



25 May 2010

Dr Ron Ben-David
Regulatory Review – Smart Meters
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

By email: smartmeters@esc.vic.gov.au

Dear Dr Ben-David

Regulatory Review – Smart Meters

AGL Energy Ltd (**AGL**) welcomes the opportunity to provide this submission to the Essential Services Commission (the **Commission**) in response to its Regulatory Review – Smart Meters Issues Paper (dated April 2010) (the **Paper**).

Before discussing the specific key issues as identified in the Paper, it should be noted that AGL's starting position is that regulatory changes should, at this stage, be kept to a minimum. Smart meters are being gradually rolled out in Victoria over the next few years, and it will take some time before the industry and community has a full understanding of the impacts of the roll out. As such, AGL considers that it would be premature to embark now on a course of extensive regulatory change.

A substantial part of the current review is focussed on what information needs to be provided in a customer bill within a smart meter environment. In AGL's view, it is too early to provide guidance on what information will be of most assistance to customers to enable them to better understand their bill, and their consumption. As such, AGL suggests that the Commission ought to facilitate customer focus groups (if it is not doing so already), in order to gain a clearer understanding of what information is of most use from a customer perspective. To this end, AGL is willing to provide a 'mock' bill for use in such a workshop, should the Commission consider that this would be of assistance.

Finally, AGL strongly submits that any changes within the Victorian regulatory framework should be considered within the context of the national smart metering framework, and national consistency should be sought wherever possible, also noting that the National Energy Customer Framework (**NECF**) is considering the implications of Smart Meters.

The key issues from the Paper are discussed in the attachment.

Should you wish to discuss this submission further please contact Anna Stewart, Manager Regulatory Policy and Strategy on 03 8633 6830.

Yours sincerely,

Alex Cruickshank
Head Energy Regulation

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Attachment discussing the key issues

1. Vulnerable customers

Are there enhancements to the current regulations which are necessary for vulnerable customers arising from the implementation of smart meters?

AGL considers that the existing notification requirements prior to disconnection should be retained and would not support the introduction of any additional requirement to contact customers prior to disconnection. AGL is of the view that the current requirements relating to hardship are sufficient and do not require enhancement in light of the introduction of smart meters. The most effective measures for assisting customers in hardship are those which take place prior to the customer facing imminent disconnection, therefore AGL does not believe that additional contacts prior to disconnection would afford vulnerable customers any further protection.

Having said this, AGL does not oppose the proposal to amend disconnection warnings so that all customers are made aware that they may be remotely disconnected, given that this is a substantial change to current practices.

2. Reviewing the bill

Verifying the accuracy of the bill

Will the proposed approach to including the consumption by tariff segment, total consumption and tariffs for the billing period ensure customers maintain their ability to confirm the accuracy of the bill?

What are the implications for cost, feasibility and information value to customers of the options for the meter's total accumulated consumption on the bill?

AGL agrees with the Commission that it is important for customers to be able to verify their usage against their bill. However, AGL does not believe that providing the index read on a smart meter bill will be of benefit to a customer trying to verify their consumption. At best, the index read could only be seen as a low accuracy check, providing some continuity with how accumulated energy has been recorded at meters in the past. At worst, the provision of the index read would only serve to confuse customers as they will be unable to reconcile the index read and use it as a 'start' and 'end' read in an attempt to verify the actual consumption for which they have been billed.

The index read is retrieved from the smart meter at the date and time of obtaining the data. The time lag between the end of a 24 hour interval period of use, and the time at which the index read is taken is another area which potentially may cause confusion. As published by AEMO, a retailer must not raise a validation query relating to any index read value and any queries on consumption should be based on the interval data and not the index read values. As industry notes, the index read provides no value in validation of consumption, and AGL also sees little value in the inclusion of this on a customer's bill.

As the Commission is aware, there is no mandatory obligation on distributors to provide retailers with the index read in the current B2B environment (ie. it is only required, must be provided if this information is available and has been collected), and therefore AGL

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cannot see how the Commission can make the provision of the total accumulated consumption reading a regulatory requirement, unless the B2B procedures are first amended to support this.

The option of providing a start and an end read, generated by a retailer adding all the data collected, will also be of little benefit to the customer because it may contain substituted and estimated data which the customer will not be able to verify. Furthermore, any start and end reads generated by a retailer will be of no value to the customer if they churn to another retailer, who will not have access to the previous retailer's 'reads'.

If the Commission considers it vital that a read be provided on a bill, then one suggestion may be that there is a separate line item on the bill which gives the 'index read' of a meter at a specified data and time – although, in reality and as stated above AGL, is of the view that this is going to be of little benefit to the customer and can only be provided by a retailer if received. In addition, there may be cost implications of retaining this data if it is not currently stored.

In AGL's view, the only accurate way for a customer to verify their usage is to request the actual half hourly interval data. Accordingly, AGL submits that there should be no requirement to put an accumulated consumption reading or index read on a smart meter bill, given that it is of virtually no benefit to customers and may only lead to confusion and increased complaints.

AGL would, however, support the provision on the bill of consumption for each tariff component. This is required numerically to calculate the total bill, and could be of value to customers to track their consumption and evaluate the impact of consumption at different times. As is noted in the Paper, this is also consistent with the position outlined in the national framework.

Estimated and substituted data on bill

Comments are sought on when customers should be advised that their bill is estimated.

Comments are also sought on whether there should be some default tariff arrangements impacting distributors, retailers and customers when bills are estimated.

The proposal is to retain the current requirement that customers be notified that any part of a bill is based on substituted data.

AGL shares the generally held view that the increase in remotely read data will lead to a reduction in the volumes of substituted and estimated data. Nevertheless, it is too early to abolish the practice of issuing bills containing estimated data. AGL submits that estimates will still be required at times, and therefore supports, in principal, the introduction of a materiality threshold. Rather than adopting the same level for large customers, which is 2%, AGL submits that a threshold of 5% of the total consumption for a billing period be adopted for small customers, which would be more meaningful than the proposed 2%.

With respect to substituted data, AGL queries the value in noting on the bill that part of the data has been substituted. This is primarily because final substituted data will not be replaced with actual data in the market – unlike estimated data, final substituted data is rarely replaced with an actual read, and is itself treated as the actual read. It is difficult to see what the customer gains from being told that part of their bill is based on substituted data, other than being made aware that their meter may have failed. There is no way that

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the customer is able to verify the amount of electricity used during the period that the data was substituted for, and this may lead to frustration and confusion.

AGL also notes that estimation and substitution are being considered within the national smart meter framework, and that the Commission therefore should be mindful of potential changes to the NEM Metrology– Validation, Substitution & Estimation Procedures, which may have a consequential impact on the Victorian regulations.

Finally, it is AGL's intention that when a customer receives their first smart meter bill that they will be provided with a short leaflet on how to read their bill, with an explanation as to what each piece of information on the bill means. AGL considers that while this may be a practice that could be followed industry wide, there should be no regulatory intervention to require it be done. After all, it is within a retailer's best interests that customers understand their bills and do not need to contact the call centre for an explanation.

3. Managing daily consumption and costs

Customer billing cycle

The current regulations for explicit informed consent may be seen to be acting as a barrier to customers accessing more timely information upon which they could better manage their costs. Views are sought on:

- Whether an 'opt-out' approach to monthly billing for deemed or standing offer customers is appropriate?
- What are the implications for the costs and timing of the current collection cycle if customers move to monthly billing?
- How should any changes to the customers' current billing cycles be implemented?

The current requirement, whereby a customer's explicit informed consent is required in order to alter billing frequency, relates in part to there having been historically a higher metering data charge for monthly reads. In the smart meter environment, reads will be provided daily, and this historical imperative no longer stands, with quarterly and more frequent billing attracting the same MDA charges.

AGL is keen for customers to receive the benefits of more frequent billing, ranging from lower amounts per bill (which may assist with budgeting) to consumption data/patterns being reinforced more frequently. However, billing frequency should be at the discretion of the retailer. An opt-out approach for deemed or standing offer customers would require significant and costly changes to current systems and processes. If a customer does not like the billing frequency offered by their retailer, then they can exercise their choice to change retailer.

A change to a customer's billing cycle should be communicated to affected customers, and in AGL's view, the most efficient way of doing so is via bill messaging. Flexibility in customer billing is closely tied with the delivery of data on a daily basis, which is a service delivery obligation that will exist for all distributors and will be effective from 1 January 2012. This flexibility in customer billing will ensure that customers can access some of the benefits associated with a smart meter prior to the implementation of the national framework.

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Graphical information on the bill

The proposal is to require retailers to provide customers with a graph similar to that used by EnergyAustralia or Ontario Energy Board when time-of-use tariffs are introduced for customers with smart meters.

What are the implications for incremental costs or barriers to innovation of this approach?

Given the customer feedback from overseas pricing pilots, and the potential move to monthly billing, mandating daily periods may also be beneficial for customers. Comments are invited on this approach.

An electricity bill effectively serves two purposes – the first being to calculate the cost of energy for the customer, and two, information about the customer's consumption behaviour. The bill is generally not an efficient means by which to provide feedback on daily consumption given that for the majority of customers it is provided on a quarterly basis. Even monthly bills do not provide the customer with instantaneous information about their daily consumption.

AGL is firmly of the view that the Commission should not be overly prescriptive in relation to the graphical information to be provided on the bill, particularly given the degree of variability within tariff designs. This is also one area where retailers may wish to differentiate themselves, and if the Commission mandates too much, it may do so at the risk of stifling innovation within the market.

AGL submits that only the main components of the bill should be displayed graphically (eg. peak, off-peak, shoulder) and that the bars on the graph should represent the sum of consumption for the billing period to provide long term information about consumption behaviour. In this respect, AGL prefers the presentation of the Energy Australia bill, and considers the Ontario example to be confusing and visually cluttered, despite the fact that it only represents one month of usage. Daily bars on a consumption graph seem excessive and may be of little value, especially for a customer being billed on a quarterly basis.

Finally, AGL notes the cost implications associated with amending the bill graphs now, given that further changes will presumably need to be made again once the NECF process is completed.

Unbundling tariffs and charges on the bills

Greater transparency through information to customers is a prerequisite for customers to benefit from the introduction of smart metering and unbundling could be considered to deliver part of this information. However, some key questions are:

- Would customers gain any information from unbundling of the distribution charges if the retailer does not base its tariff on the distributor's tariff structure?
- Would it be helpful or not for customers to have some charges unbundled, but not others?
- Does unbundling of network charges and tariff alignment have the potential to reduce retailer flexibility in tariff offerings?

What are the costs, benefits and feasibility of greater unbundling? Should regulation go beyond requiring the unbundling of retailer and distribution cost sub-components of wholesale and metering costs?

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AGL is generally opposed to the concept of unbundling charges on a customer's bill. As the Commission is aware, charges are comprised of several different tariff components – retail, distribution and transmission components, as well as market charges. Including all of these items on bill would most likely triple the number of line items, and may only serve to confuse customers – many of whom already have some difficulty understanding the current line items on their bill. While unbundling may be viewed as providing greater transparency, it does little in terms of assisting a customer to understand how to modify their behaviour in order to achieve greater energy efficiency (arguably one of the key drivers behind the introduction of smart meters).

Presenting these various charges in graphical format serves as an example of why the disaggregation of retail, distribution, transmission and market fees is not particularly helpful. Not only would it increase the number of items on the graph, but it would belie its usefulness as an indicator of the main drivers of the bill size. For example, would the peak portion of the graph show the retail tariff peak consumption, or the distribution definition of peak consumption or the transmission definition of peak consumption, or all three, or perhaps even a selection of two of the three? Mandating the unbundling of the various tariff components will add further and unnecessary confusion to price variation events.

Accordingly, AGL considers that this is not a matter requiring regulation – rather, this may be something which some retailers choose to do as a way of differentiating themselves in the market.

Notification of variations to tariffs

The Commission considers that any changes to the regulation on the notification of tariff variations should wait for the outcomes of the Victorian Government's deliberations, so that there is consistency between customers on market contracts and those on standing contracts.

Nevertheless, interested parties may wish to submit their comments in regard to this matter.

AGL agrees that the Commission should refrain from regulatory change with respect to this issue until such time as the Victorian Government has completed its deliberations.

Access to historical billing data

Will the regulation of the provision of billing level data continue to meet the needs of customers to allow them to reconstruct their historical bills in a smart metering environment for ad-hoc or occasional purposes?

Obligations already exist that require retailers to provide historical billing data. "Billing data" is not a defined term and provides the flexibility for retailers to either provide the accumulated energy usage or the half hourly reads for a billing period. Retailers have the ability to apply a retail charge on the provision of the information if it is not the first request made by the customer within the preceding year, or if the data requested relates to a period prior to the preceding two years.

AGL considers that these provisions do not change when a Smart Meter is installed. They are adequate for a manually read interval meter. There is no defined regulatory standard on how the provision of this information should be presented and AGL does not see any benefit in the Commission establishing a minimum standard in how the data should be presented, as such regulation may restrict future innovation.

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Access to metering data

The Commission considers that there is a need for regulation to require customer access to metering data that will be available on a daily basis through secure communication methods capable of protecting customer privacy.

Comments are sought on:

- whether distributors as well as retailers should be obliged to provide metering data sets to customers
- how distributors or retailers can provide interval data from smart meters securely to customers
- how would the cost of such a service be assessed?

What other information and information sharing issues should be considered by the Commission in reviewing the regulations?

AGL submits that data security is best considered as 2 separate issues:

1. Communications security, where there is the potential for a third party to access the communications pipeline and retrieve data without authorisation - this is generally considered to best be addressed through Chapter 7 of the National Electricity Rules; and
2. Customer data, accessed as a result of appropriate customer authorisation – a customer protection issue perhaps best addressed through the NECF.

With regards to the first issue, AGL notes that the National Stakeholder Steering Committee (**NSSC**), as directed by the Ministerial Council on Energy, is undertaking a review on data security. This review is not scheduled to be completed until later this year. Therefore, it would seem premature for the Commission to change Victoria's regulatory framework without first taking into consideration national developments, both in terms of the NSSC review and developments in the national smart meter framework and the NECF.

The second issue related to accessing customer data is to some degree dealt with under the National Privacy Principles (NPP6) which implies that allowing distributors and or third party providers is not possible without direct customer contracts and appropriate consent to do so. In AGL's view this should also be considered in the NECF review. Amending Victoria's regulations before these national reviews are completed would arguably be premature.

4. Shopping around for a better offer

Comments are sought on these, or alternative, options for ensuring customers are able to compare competing retail offers when time-of-use tariffs and more complex tariffs are introduced.

Consumers are able to compare energy offers primarily by two means – through education on tariff structures (often provided by retailers when explaining various market offers) and through the use of on-line comparison services provided by third parties (such as the Commission's YourChoice website.) AGL envisages that such tools will evolve to accommodate the additional offerings provided by way of smart meters, and considers that further prescriptive regulation in this area will limit tariff structures and stifle innovation.

One suggestion in the Paper is that retailers be required to offer retail tariff structures that are the same as the network tariff structures. AGL is strongly opposed to such a proposal and considers it to have overtones of price regulation. AGL also cautions the Commission

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against using unit pricing as the sole method of comparing retail offerings. While unit pricing may, in practice, be the simplest way of comparing offers, its limitations should be recognised (ie. the unit price does not take into consideration all the discounts and offers that make up the product).

An additional point relating to switching retailers which AGL asks that the Commission consider is related to the speed at which customers will be able to churn to a new retailer in a smart meter environment, as there may be customer protection implications. Poor marketing practices may serve to amplify some of the issues associated with a quick transfer process, whereby customers may not have as much time to fully consider their decision to change retailer (other than the requisite 10 day cooling off period).

Due to the increased speed of transfers, won in errors and lost in errors will settle much faster than at present, which may result in a negative customer experience. As there will be less opportunity to discover and investigate these errors before a transfer takes place, customers are likely to be the first to realise an error has occurred, and may only do so when they receive a final bill from their current retailer.

While acknowledging this is outside the scope of the current review, consideration may need to be given to whether it would be appropriate to extend the transfer period (say, to 30 days, allowing for a 10 day cool-off plus 20 day block on transfers). This will increase the likelihood won and lost in errors will be discovered and resolved, ensure customers fully understand that they are transferring retailers and the impacts of this (for example, early termination fees), and fulfil the notice period of contracts (where they apply).

5. Prompt reconnection and disconnection service

Should the regulation require the distributors to disconnect and reconnect premises more quickly if the smart meter functions are available?

AGL is of the view that there should be no change to the Victoria regulatory framework in relation to this matter, pending the establishment of service levels at a national level through the development of the national smart meter framework. To date, no new Business to Business protocols or service level standards have been introduced in Victoria to support remote de-energisation and re-energisation. There is also the outstanding safety review being conducted by Energy Safe Victoria surrounding these services. AGL suggests that the Commission should delay any regulation regarding this until the above outstanding items have been resolved.

6. Customer protection under disconnection

What steps could be taken by the distributors and/or the retailers to ensure that the wrong customer is not disconnected with smart meters?

Should retailers take additional steps prior to disconnecting all customers, as well as noting on the disconnection warning that the disconnection may be carried out remotely?

In relation to ensuring that the correct customer is disconnected, AGL considers that there are already sufficient obligations placed on retailers, such as the wrongful disconnection procedures, and that further regulation in this area is not warranted. Further, AGL does not understand how the introduction of smart meters will impact on the number of instances of the incorrect customer being disconnected (other than when this does occur, presumably reconnection will be able to occur more efficiently).

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As noted earlier in this submission, AGL does not consider that additional steps need to be taken prior to disconnection, other than noting on all disconnection warnings that disconnection may take place remotely.

7. Information to new customers after remote disconnection

Under remote disconnection should the Commission require that information be provided by a sticker placed in the meter box?

What other options are available for ensuring new occupants know how to go about finding a retailer and getting reconnected?

According to a recent press release from Victoria's Energy and Resources Minister discussing a global survey of retail energy markets, 'since electricity retail price competition was introduced in Victoria in 2002, over 60 per cent of the state's residential and small business energy customers have chosen to change retailers.'¹ Clearly this shows that Victorian consumers understand the concept of finding a retailer and arranging reconnection. Therefore, AGL does not see any benefit in the Financially Responsible Market Participant sending a letter to the occupant of the site advising the consumer of their ability of choice, given this would be sent after the site was remotely disconnected and most likely received after the consumer has arranged for the site to be remotely reconnected.

If the Commission sees it necessary for any regulation to be introduced, in AGL's view, the suggestion of a sticker being placed in the meter box may provide limited benefit to the consumer. The information on the stickers may date and not be replaced (for example, phone numbers may change) and for meters that have no box, the sticker will weather and could become dislodged. In AGL's view, consumers will generally be experienced with a retailer, have seen competition information, and be able to use the yellow pages or the internet, or rely on recommendations from friends or family, to enable them to find a retailer and get connected.

¹ Media release, 1 May 2010 at <http://www.premier.vic.gov.au/newsroom/10339.html>

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8. Frequency of network billing of retailers by distributors

The Use of System Agreements are amended to provide for monthly network billing of customers with smart meters, but in the period until 1 January 2012 (or some other agreed future date) the payment terms for such network bills be extended if the retailer is billing the customer quarterly. UoSAs currently provide that retailers must pay network bills within 14 days. This would be extended to a number of days that produced an equivalent outcome to their current level and pattern of payments.

Under this amendment, distributors could implement their new billing systems, generate monthly network bills and all of the distributors' objectives in the AMI Process Model would be attained. For retailers, while data and bills would begin to flow to them more frequently, there would be no acceleration of their payments to distributors, no mismatch between receipts from customers and outgoings to distributors, and therefore no increased working capital required. Distributors' working capital positions would be unchanged from their present state, rather than being "immaterially" advantaged.

Comments are invited on whether such a solution is supported, whether it can be achieved by negotiation, or whether the Commission should amend default UoSAs to bring about this outcome.

AGL is strongly of the view that retailers and distributors be given the opportunity to negotiate their own solutions in relation to the frequency of network billing. Failing agreement being reached, AGL submits that the default UoSA be amended so that the implementation of monthly billing is cost neutral to both retailers and distributors. This would obviously mean a change to payment terms, and the solution proposed by the Commission is, in principal, supported by AGL. However, AGL submits again, that the parties must first be given sufficient time to achieve their own agreements.

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