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Regulatory Review – Smart Meters
Essential Services Commission, Victoria
Level 2, 35 Spring Street
Melbourne VIC 3000

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

Attention: Wendy Heath

Smart Meters Regulatory Review – Issues Paper

Simply Energy welcomes the opportunity to comment on the Commission's Smart Meters Regulatory Review Issues Paper (the Issues Paper), released on 23 April 2010.

Simply Energy appreciates the Commission's review of the regulatory regime in light of the deployment of smart meters in Victoria. This review provides an opportunity to, where necessary, make staged changes to the regulatory framework, as well as identifying issues on which there is a need for education and information programs for the 2.2 million Victorian electricity customers impacted by the rollout.

Our comments on the Issues Paper are provided in the following order:

- Issues that are satisfactorily addressed by the current regulatory framework, or otherwise should not be progressed further as part of the review;
- Regulatory proposals that should be implemented in some form by the Commission's 31 July 2010 deadline; and
- Regulatory proposals that require further consideration and an implementation timeframe beyond the Commission's 31 July 2010 timeframe.

Issues for which no change is required

Vulnerable customers

The current regulatory framework requires retailers to implement programs for assisting customers experiencing financial hardship, and prescribes in detail the circumstances and processes that retailers must adhere to in disconnecting customers. In Simply Energy's view, this framework of obligations is readily adaptable to deployment of smart meters; the pricing impacts of smart metering are most appropriately addressed through government concessions programs.

Reviewing the bill

Simply Energy supports the display of tariffs and consumption on bills broken down by tariff category (e.g. peak, off-peak, shoulder) and a totals line for consumption and cost. However, we are concerned about the prospect of mandated requirements to display accumulated consumption on bills, similar to the current opening and closing-read approach for accumulation meters.

To give effect to such a requirement, retailers would rely upon "index" reads from the meter data files provided by distributors for the billing period. Because index reads do not follow the same 24-hour cycle as

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the reads used for billing purposes, there will be a discrepancy between the total consumption displayed on a customer's bill over a given period and the accumulation figures presented. In addition, index reads do not take into account any periods of estimated data which will further widen the discrepancy between what is displayed on the bill to that displayed on the meter. As such, rather than assist customers in understanding their bill, the display of index readings would lead to customer confusion, and, we consider, increased costs to retailers resulting from call centre contact and Ombudsmen cases.

Simply Energy believes that, rather than seeking to provide customers with a potentially-confusing means of comparing current-period to previous consumption (through index reads), customers should be educated about overall changes to bill format and other issues of interest in respect of the smart meter rollout. We understand that Government is currently giving thought to communications requirements with customers to facilitate the successful introduction of smart meters, and consider that this forum is appropriate for this purpose.

Estimates and Substitutes

Two critical factors are relevant to understanding the practice of performing estimated and substituted meter reads where smart meters are in place: remote reading capability will reduce the need to estimate due to access issues; and where estimations and/or substitutions do occur, they will likely be more accurate given the increased granularity of historical metering data and rigour surrounding the estimation and substitution process in the metrology procedures.

Given these factors, it is likely that where estimations and/or substitutions are used, they are less likely than currently to have a material impact on a customer's bill. As such, it is not clear that a departure from the current regulation is warranted; that is, retailers should only be required to indicate that a bill is based on an estimate and/or substitute if it relates to all interval reads upon which the bill is based. Mandating a threshold based on the number of estimated reads within a period (e.g. 2% of reads) is not appropriate, as conceivably even 90+% estimation and/or substitution would not have material impact on the due amount. We acknowledge, however, that consumers should be informed when their entire bill is based on estimation and or substitution, as is currently the case.

We are concerned about the suggestion that a default tariff is warranted where meter reads have been estimated for two reasons. First, as noted above, it is likely that estimation will become more precise where smart meters are in place. Secondly, any move to set a default tariff in such circumstances would constitute re-regulation of retail prices, in a way not envisaged by the *Electricity Industry Act 2000*.

As a secondary matter, in November 2009 the Commission circulated a proposed minor amendment to the Metering Code to reinstate clause 17.2 to deal with the treatment of substitutions. Clause 17.2 was to be renamed clause 8A and section 4.2(f) of the Retail Code was to be updated to reflect this. The current version of the Retail Code still makes reference to the clause 17.2 and 23.2 and the Metering Code has not been updated to include the proposed clause 8A.

Simply Energy also noted to the Commission that the following definition had been deleted from the code:

> *"estimated read" means an estimate used in lieu of a meter reading. An estimated read of interval metering equipment is treated as an estimation for the purposes of this Code whilst an estimated read of accumulation metering equipment is treated as a substitution for the purposes of this Code."*

The above definition limits the requirement in dealing with substitutions to accumulation metering equipment. The removal of this definition expands obligations on retailers in relation to interval metering

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equipment and this change was not subject to public consultation. Simply Energy noted to the Commission that if the deleting of this definition was unintentional then it should be re-instated or if it was intentional, it should be subject to full consultation. The Commission is yet to respond.

Unbundling tariffs and charges on bills

There is no rationale for introducing unbundled charges on customers' bills as a result of the smart meter rollout. Ultimately, customers understand their energy bills and compare retail products by reference to a bundled retail tariff; unbundling of tariffs will cause confusion, as the bulk of customers are generally not aware of the components that comprise the retail tariff they are charged, nor are they typically interested to find this out, and nor is it relevant.

The move to smart metering presents a challenge to all involved in terms of educating consumers about the difference between the information that will be presented on their bill and how this is calculated. To extend this education to include the understanding of the make up of a retail tariff would result in an unnecessarily steep learning curve for consumers in an already challenging environment.

Unbundling will be exceedingly complex where a retailer's tariff structure does not align with the network tariff. That is, depending on the structure of the retail and network tariffs, the display of unbundled retail tariffs could be next to impossible to understand. Alternatively, if unbundling leads retailers to solely structure their retail tariffs in line with the network tariff, it will stifle retail pricing innovation.

Regulatory proposals for implementation in July 2010

Customer billing cycle

Retaining quarterly billing for customers with smart meters blunts the price signals that are a key policy driver for the rollout, denies customers the benefits of more actively monitoring and adjusting their energy consumption, and imposes working capital costs on retailers where distributors move to monthly network billing (an issue that is addressed elsewhere in this submission).

As stated previously, we believe that retailers, as part of the smart meter project, should be entitled to move customers from quarterly to monthly billing without explicit informed consent; absent such a provision in the regulatory framework, retailers will not have the opportunity to offset higher costs associated with greater billing frequency with lower working capital costs. This will ultimately raise prices for consumers.

The collection cycle must also adjust with the billing cycle; without these being linked, retailers will confront additional administrative and billing complexity, increased working capital costs and more difficulty in managing outstanding debt.

Given the above issues, and the moves being taken by distributors now to implement monthly network billing, we consider the Commission should modify the Energy Retail Code in the short-term to provide an explicit option for retailers to move customers to monthly billing in an orderly way (i.e. as interval meters are rolled out), and adjust the collection cycle to fit both current quarterly billing arrangements and future monthly-billing arrangements. There may be potential to phase-out both the minimum quarterly billing cycle and the associated collection cycle over time.

Frequency of monthly network billing by distributors

Simply Energy agrees with the approach outlined in the Issues Paper suggesting that as the move to monthly network billing occurs, there should be no acceleration of payments by retailers to distributors. There is no

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exchange of information between retailers and distributors regarding the customer retail billing cycle. Therefore, until such time that there has been ample opportunity for retailers to migrate customers to monthly billing, either through the removal of the requirement for customer consent or other such means, there should be an underlying assumption that all customers who are on a monthly network billing cycle remain on a quarterly retail billing cycle.

Regulatory proposals for further consideration and implementation beyond July 2010

Graphical information on the bill

Simply Energy is largely supportive of the introduction of graphical information that is reflective of customer consumption on a time of use tariff. However, there should be no barriers to a retailer achieving this in a manner which best meets its customers' needs. There will be multiple ways of displaying consumption information on a bill. Overly prescriptive regulation of the form of graphical information will limit innovation, and may prevent the best option being adopted. Simply Energy suggests that the Commission monitor the development of graphical information on retailer bills, and only step in to regulate if a reason to do so emerges.

Prompt reconnection and disconnection service

The Issues Paper touches on concerns about the disconnection of the wrong customer in a remote services environment. Simply Energy acknowledges that there will no longer be the opportunity for a technician to verify information regarding the site and the customer; however, do not believe that it is necessary for further steps to be taken when disconnecting a customer on the basis that the service will be performed remotely.

As suggested in the Issues Paper, there is an opportunity for the distributors to perform remote reconnect and disconnect services more promptly, which Simply Energy is supportive of both as a customer service deliverable as well as a resolution to the issue mentioned above. Should an incorrect disconnection occur it will also be able to be rectified quickly due to the remote capability.

Please contact Andy Cole or Fiona Savage if you would like to discuss this submission further.

Yours sincerely

Alex Fleming
Legal and Regulatory Manager