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08 July 2011

Khayen Prentice
Draft Decision – Capacity Control and Verifying Customer Bills
Essential Services Commission
Level 2 35 Spring Street
Melbourne Vic 3000

By Email: Khayen.prentice@esc.vic.gov.au

Dear Ms Prentice,

Lumo Energy, (Lumo), would like to thank the Essential Services Commission, (Commission), for the opportunity to provide further submissions to the Draft Decision – Capacity Control and Verifying Customer Bills.

Considering the broader objective of the Smart Meter implementation across the state and the associated costs and benefits that have been considered to date, Lumo considers the Commissions decisions to be somewhat of a hindrance to the benefits realisation.

Capacity Control Products

Lumo is surprised at the Commissions view that, because the technology is in its earlier stages of development, it should not be sanctioned with the exception of emergency network management. We also question whether the ban on supply capacity and load control extends to distribution businesses or other third parties in terms of product offerings as a third party aggregator or Meter Data Agent (MDA).

If the ability to control load within a consumers property is exclusively provided to distribution businesses with contractual arrangements required under the distribution code, will there be monitoring of adherence to those contractual arrangements and will consumers have the ability to override the function on site if the elect to? These are the same questions that retailers would be required to answer however because the term emergency management is used they are not considered however they become more important in this context.

Emergency network management needs to be defined; will an emergency be declared when network load is too high as a precursor to load shedding or will the prevention of an emergency be sufficient for networks to begin controlling load.

We are concerned that the justification for any prohibition has not been appropriately considered through the consultation process and that some submissions have been largely ignored regardless of their value to the debate.

If the decision to prohibit the use of such technology is based solely on the assumption that retailers would simply move customers that pose a credit risk onto a product that allows retailer to control their load and or cap their supply then there appears to be a lack of understanding regarding the interaction of all the relevant regulations.

Although not tested, we believe that any term of condition that allows one party total control of supply to the consumer would reasonably be considered an unfair contract term where it is for the purposes of credit control. Much like the changing of tariffs upon entry to a retailer's hardship program could not be done without consideration of obtaining explicit informed consent from the consumer regardless of the appropriateness of the tariff.

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A prohibition for credit management and hardship situations would be acceptable however a general prohibition directly inhibits the investment and development of these products, delays any benefits that may be obtained by individuals out side of hardship customers and fundamentally continues the cross subsidy approach that consumers currently face.

Lumo also strongly disagree with the views of advocacy groups, and the EWOV, that the potential misuse would be magnified by direct marketing to consumers and or that consumers could inadvertently sign up to one of these offers without knowledge of the implications.

There are other third party providers that are seeking to enter the space between retailers and distributors as MDA's or Brokers providing (Home Area Networks) HAN and IHD (In Home Display) devices to consumers with the potential of load control functionality outside of the market.

Under the National Electricity Rules (NER)[1], Chapter 7, there are no current rolls designed to govern the interaction between the market participants and third parties offering HAN and IHD services. This allows parties other than licensees to participate without the same obligations and restrictions or inhibiting the use of these products to licensees only. Prohibiting product development where there are sufficient marketing and consent controls in place but allowing development where those marketing controls are not enforceable by the Commission.

Prohibiting this development without consideration for the lack of controls from third parties will simply impose additional cost on retailers' and subsequently consumers for additional disputes that will not be able to be resolved through normal mechanisms.

Start Readings on Smart Meter Bills

Lumo remain unconvinced that there is substantial benefit obtained by including 'start and end reads' on consumers' invoices to provide additional clarity for consumers and or allow for greater validation of invoices.

Providing a method for consumers' to validate an invoice that has a significant flaw is only setting unrealistic expectations which may have significant ramifications for retailers in handling disputes.

The AMI register 'index reading' consists of a snapshot in time view of the total consumption that has passed through the meter, including all registers, which is captured to represent the total usage. The End read concept was originally considered as a means in which a consumer, receiving their bill, could walk outside and check that the meter is at roughly the same amount.

The same theory being employed with a start reading assumes that the previous end reading differed from the start reading and the result would replicate a basic meter so the consumer could validate that the usage matched.

If there are substituted intervals during the period they may change the amount that the consumer is billed however it will not change the accumulation value.

[1] http://www.aemc.gov.au/Electricity/National-Electricity-Rules/Current-Rules.html

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Example:

The below is a practical worked example of the confusion that may be encountered and how it will cause consumers not to trust the recorded usage in favour of index reading.

We have excluded possible reasons for the estimations in favour of what could be the result.

First Invoice:

Starting from zero, 800 kWh is actual usage and 200 kWh is substituted usage, based on the interval data, however the accumulated/ index 'end read' is 900 kWh. The amount that the customer will be billed for is 1,000 kWh.

There is an established imbalance between the two figures because the basis of the bill will not be the accumulation reads but the interval data.

Second Invoice:

The 'start read', accumulated/ index, will be 900 kWh but the previously substituted interval data has been adjusted or replaced with actual usage for the previous period then another 900 kWh is consumed the 'end read' will be 1,800 kWh The amount the customer will be billed for is 800 kWh, even though the usage was 900 kWh for that period.

The simple fact that the amount of consumption in intervals verses the values of the 'start and end' accumulation/ index reads, may not balance invoice to invoice, or even within the same invoice, will cause equally as many complaints as not being able to see the index read and compare to the meter. This only serves to increase customer dissatisfaction and distrust in the meters because the readings and the invoiced consumption is highlighted and may not balance.

Lumo is also concerned at the lack of understanding regarding the elements that comprise the content and basis of a bill.

Within the Commissions draft decision the basis for one of components of the decision was that 'currently customers' bills are not based entirely on the meter reads, but may be based on substitutes and estimates' which is substantially misguided. Start and end reads only currently occur on basic meters, meaning if there is an estimate or substitute it is the entire bill in most cases.

As described earlier, the components of the bill in a basic meter environment are meter readings whether estimated, substituted or actual, which are two pieces of data and a simple subtraction between the two to determine consumption. In contrast, smart meters have 48 individual intervals per day spaning the entire period which, if extrapolated to 93 days, equals 4,464 individual intervals of recorded consumption.

The exposure associated with making almost every invoice a potential dispute due to an imbalance between 'start and end' reads verses interval consumption and the cost imposition for call centre volumes, Ombudsman investigations and the internal work to validate and explain these factors is the fundamental cost which the Commission has stated has not been clearly explained.

If there is 25% of meters installed, and 5% of those properties complained to retailers that is 32,000 complaints. Then if just 25% of those complaints escalated to EWOV, the

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cost would be roughly $4.5M[2], excluding the costs associated with resolving these disputes within the licensed businesses.

Regulating that retailers' must provide information that has potential to mislead consumers and cause disputes is counterintuitive and fails to consider a balance between cost impositions on retailers verses an effective consumer protection provision.

Lumo recognises that some of the functions would only desirable to a small portion of the wider public in the short term however prohibiting development through regulation effectively controls what consumers may receive as benefits while others adjust to understand what the products are.

Time of use pricing, load control and a vast array of features including granular information that are enabled by these meters should not be inhibited because of its potential misuse without evidence that there has been any misuse.

Consumers have the right to say no however these decisions equally refuse consumers the right to say yes.

If there are any questions regarding this matter please contact Ross Evans on 03 8680 6426 or via email at Ross.Evans@lumoenergy.com.au

Regards,

Ross Evans
Regulatory Compliance Analyst

[2] Note: this value is based on a Stage 1 (C3) Complaint Cost as charged by EWOV as the midrange cost for 2010 – 2011 financial year and an estimated 10% increase in complaints from the same period.