



4 February 2011

Regulatory Review - Smart Meters
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

By email: khayen.prentice@esc.vic.gov.au

Dear Ms Prentice

RE: SMART METERS REGULATORY REVIEW - CAPACITY CONTROL & VERIFYING BILLS

Thank you for the opportunity to provide input to the Commission's *Smart Meters Regulatory Review - Capacity Control and Verifying Bills*.

Please see the below for Origin's comments on the questions raised in the Issues Paper.

Supply capacity control

As an initial point, while we are glad that the Commission is giving further consideration to the issues related to supply capacity control, we are surprised the Commission has adopted an approach that limits the discussion to specific questions around regulating services that have not been addressed sufficiently in a conceptual sense or have even been tested in the market to date. In Origin's view, there should first be some discussion of the overall philosophy of regulation in this area and what products might be available.

It is also worth noting that nothing in the Victorian Minimum AMI Functionality Specification requires the provision of supply capacity control services to retailers. Separate service levels would need to be negotiated with each distributor if a retailer wanted to offer such products to the market.

Key issues to explore relate to how 'credit management' might be defined, and the potential for customers to be provided products that control supply in exchange for some other benefit. Of particular relevance is the question: where do we draw the line between a product that the customer agrees to, where there may be a cap on supply that the customer uses as a budgeting tool or for convenience, and the use of supply capacity control as credit management?

We would like to re-iterate the position put by Origin and the industry in the previous consultation forums: we do not want to put customers on supply capacity control products for credit management purposes, that is, we would not seek to sign customers on to these products when they cannot pay. The priority for our customers who require support is to provide that support through payment plans and/or our hardship programme, and keep them on supply.

There has been a range of statements made by some stakeholders about how retailers will place people on supply capacity controls against their best interests, which we believe is a misrepresentation of the issue. Retailers want the freedom to meet customer requests for innovative products, and this may include supply capacity control products in the future, once customers and the industry have developed a deeper understanding of



the possibilities and potential benefits. Retailers have never argued for supply capacity control for credit management purposes, in the sense of managing customer debt from late or non-payers.

Origin believes that supply capacity control products should be driven by the market, and that a customer must freely provide their explicit, informed consent to going on to supply capacity control. It is possible that some customers might want products which de-energise the premises between certain hours or on days of the week. They might want to reduce supply over holiday periods or to stay within budgets. If these customers provide their explicit, informed, consent we cannot see why they should not have the opportunity to obtain these types of contracts.

Origin currently has no intention to provide supply capacity control products in any sense. However, we remain open to the possibility that as customers become used to smart meters and the additional functionality and control these (and the various add-ons) may provide, customers might want these products and will ask for them. If this is the case, we would expect that a well-crafted product that meets customer needs should be allowed to exist. Given that it would exist within an already highly regulated environment, and that we would expect a customer to provide informed consent, the risks should be minimal.

Overall, the benefits from smart meters need to be able to be provided within an open market context for them to be effectively accessed, and supply capacity control plays a role in these benefits. It is not yet clear what might work and what customers want as we are too early in the programme, and customers have not yet had a chance to understand and accommodate the new technology and embrace the opportunities it brings them to control their bills. Contemplating new regulation well in advance of the market even being in its infancy runs the risk of stifling the innovation upon which the benefits case of AMI depends. Imposing such constraints without testing the need for them robustly and objectively is likely to reduce the benefits of the AMI roll out for the Victorian community.

Origin's specific comments to the questions/issues raised are provided below.

How will cut-off limits be set and agreed?

For how long should supply be cut off before restoring?

Once restored, should the power remain on for a guaranteed period before being subject to cutting off again?

Should there be limits for cut-offs in terms of how frequently and how many times in total?

We believe that it is too early to set out any detail here - this will be driven by the market. We anticipate that these aspects would be dictated by customer demand and what makes sense for customers, and then agreed in market contracts, where customers give their explicit, informed consent.

Possible health and safety risks to consumers

The health and safety issues of re-energisation are being addressed by Energy Safe Victoria.

Safeguards for customers on life support

No customer on life support should ever be able to enter such a contract. They would not want to and retailers would not want them to. Systems can be configured to not allow such products to be marketed or accepted for designated customers.



Any potential for customers to manually override an automatic cut-off under supply capacity control

There is no capability in the Minimum Functional Specification for consumers to manually override an automatic cut-off under supply capacity control. A customer would need to contact their retailer to modify their contract/agreement.

How to ensure that supply capacity control is used only for purposes other than credit management

This will be impossible without a clear definition of credit management.

We suspect the ban on use of supply capacity control for credit management purposes is actually focused on prohibiting retailers putting people who are late or non-payers on these products. Credit management is thus about retailers minimising what may be bad debt. We agree with this sense of credit management and have no concerns about the ban on addressing this use of the product.

As an alternative to this use of supply capacity control, the product could instead be targeted at customers who are able and willing to manage the requirements and freely agree to its terms. This could be more about the product facilitating customer lifestyle preferences and budgeting goals, and should be allowed outside the ban. Therefore it should not be captured as 'credit management'. If credit management *is* defined broadly to encompass budgeting products that allow a customer to better control the size of their bill, none of the more innovative products - products that consumers are likely to want - will see the light of day.

However, definitions are unlikely to be absolute and the industry will need to be cautious about how products are interpreted in hindsight and when customers' circumstances change when they are on the product. Clear guidance from the Commission will probably be required, with this based around observable product and sales characteristics that retailers must avoid if they are to be compliant with the terms of the ban. However, contemplating such guidelines today is premature as it is too early to say what these products might look like, let alone what they should and should not be allowed to do in any detail.

Ensuring that offers of supply capacity control include making customers adequately aware of the disadvantage they will experience by using this product

We believe that this issue would be better captured as a matter of the information that needs to be provided to a customer about the product both at the pre-contractual stage and during the contract. All information relevant to the product would obviously need to be particularly clear in any sales and pre-contractual material, as well as the contract itself. This includes the potential benefits of the product.

Regarding the information provided during the contract (an issue that we note the Commission has not raised), Origin believes that supply capacity controls should not be used without providing a capability for consumers to be notified when supply capacity limits are in place and to get real-time feedback via the Home Area Network (or other means) on how the consumer's usage is tracking against those limits.

What should be done if a customer agrees to have supply capacity control and subsequently suffers financial difficulty?

The overall aim for any customer experiencing payment difficulties is to provide the support they need and to keep them on supply. If a retailer became aware of a customer



in this situation it would seem reasonable to take the customer off the contract, as otherwise the product may be seen as coming close to credit management.

However, a retailer making a decision to shift a customer from their contract is problematic if this is not what the customer wants. If the customer wants to stay on the contract in the full knowledge of what that entails, they should have that right. We would anticipate that if we had such a contract on the market and a customer did advise of financial difficulty we would discuss options with the customer, including potentially being able to come off the product without penalty (but noting that another contract may have higher tariffs or associated costs).

Obviously such a customer may also want or need to enter the retailer's hardship programme, and so will also be able to access the various forms of relevant support.

For how long should arrangements about supply capacity control run? (e.g. for one year? For the life of the contract?)

We would expect that this would be driven by consumer demand and will be clear in the contract and any pre-contractual material.

The customer's ability to cancel a supply capacity control arrangement

We would expect that such a contract might be cancelled via the usual mechanisms and we would also anticipate some retailers may provide a goodwill gesture of no exit fee.

Could supply capacity control arrangements be part of a standing offer?

They may, but we would suggest that explicit informed consent would be required to enter this contract, and so a market contract would be preferable.

Privacy considerations.

We are not sure what the additional privacy considerations might be and seek further clarification.

Load control

As a preliminary point, we note that discussions in policy forums have suggested that there is a choice between retailers and distributors offering load control products. However, it should be clear that distributors may have the technical capacity to manage the load but they do not have the customer relationship and billing capacity to manage the customer benefits of load control. A retailer can compensate a customer through reduced prices, not a distributor. Retailers have the ability to send price signals and link these to the distributor switching off appliances. These contracts will also be portable through a retailer, which is convenient for customers when they move from one distribution network to another.

Customer perceptions should also be considered, where customer contract provision from both distributors and retailers is likely to cause some confusion about roles in the energy market and who to contact for issues.

Further, the risks need to be taken into account: retailers bear hedging costs for energy and need some certainty about customer load. Load control products give retailers the opportunity to better manage the (increasing) risk from the wholesale energy component of the retail bill (currently around 40 per cent). In contrast, networks already manage their risk through network planning and cost recovery through regulated price determinations. They can also *only* manage network risk: distributor products will also not have the added benefit of management of wholesale risk for the market a whole.



Allowing the load control feature for distributors only means that retailers are at greater risk, and customers see no direct benefit. If distributors want to develop customer relationship and billing systems it is likely to be inefficient and the end consumers will be paying for both retailer and distributor systems.

How will load control limits be set and agreed?

For how long should an appliance be automatically turned off before restoring?

Once restored, should the appliance remain on for a guaranteed period before being subject to turning off again?

We believe that it is too early to set out any detail here - this will be driven by the market. We anticipate that these aspects would be dictated by customer demand and what makes sense for customers, and then agreed in market contracts, where customers give their explicit, informed consent.

Should there be limits for appliance turnoffs in terms of how frequently, how many times in total, or the number of appliances involved?

Consumers will elect whether to participate in any load control programme and this should be market driven. This will most likely largely be driven by the changes in appliance technology over time.

There is no justification for setting any limits at this stage. Any judgement about what is 'appropriate' will be pure guesswork and not linked in any way to actual customer experience or preference. Regulating this at this point would be highly likely to stifle the innovation upon which the benefits case for AMI depends.

This may be an issue to review once the market has had the chance to develop and there is the opportunity to learn more about any need for minimum standards.

Health and safety risks to customers from load control products

The health and safety issues of re-energisation are being addressed by Energy Safe Victoria.

Third party roles in the provision of load control products

We anticipate that third parties will have a strong role in the provision of load control products. Current examples include Greenbox, Google and Energy Response.

Ensuring that offers of load control include making customers adequately aware of the disadvantage they will experience by using this product

Obviously this would need to be particularly clear in any sales and pre-contractual material, as well as the contract itself. The benefits would similarly be highlighted.

The customer's ability to manually override on occasion when an appliance is automatically turned off

The conditions around consumer override would form part of the conditions of the market contract between the consumer and their retailer.

The customer's ability to cancel the load control aspect of their electricity contract

We would expect that such a contract might be cancelled via the usual mechanisms, and we would also anticipate some retailers may provide a goodwill gesture of no exit fee.



Information privacy when load control is offered by distributors, retailers or third parties

All organisations will be bound by the Privacy Act.

For how long should arrangements about load control run? (e.g. for one year? For the life of the contract?)

We would expect that this would be driven by consumer demand.

Might load control be part of a standing offer?

It might, but we would suggest that explicit informed consent would be required to enter this contract, and so a market contract would be preferable.

What safeguards should be considered for customers on life support.

It would depend which load was part of the product. Obviously load linked to the life support requirements would not be sensible and we would not expect a life support customer to enter into this contract. Systems can be configured to not allow such products to be marketed or accepted for designated customers.

Verifying bills - readings at meter changeover

The Commission seeks stakeholder comments on:

- whether distributors should be required to provide customers with a copy of the final accumulation meter read at the time when the basic meter is replaced with a smart meter; and
- how this might be done.

We agree that it would seem sensible for distributors to provide customers with a copy of the final accumulation meter read at the time when the basic meter is replaced with a smart meter. The simplest means of managing this is for the distribution contractor to leave a (handwritten) note at the premises at the time of the meter changeover.

As a point of clarification, we note that in the Issues Paper (p. 9), the Commission says that providing a copy of the final meter reading of the basic meter would “allow customers to verify their final bill based on the accumulation meter and provide a starting point for verifying future bills from the smart meter”. The second half of this sentence should be clarified: this cannot provide a starting point for verifying future *bills* from the smart meter, as the new meter will start from zero. Future bills from the smart meter will have no relationship to the readings of the previous meter, which is why this number needs to be written down. We note that the Commission may have intended this to mean that a customer can add the first cumulative amount from the smart meter to the last read of the accumulation meter to verify the bill that covers the changeover (only).

“Start” readings on smart meter bills

The Commission seeks stakeholder comments on:

- the desirability of including in smart meter customers’ bills the consumption read corresponding to the start of the billing period; and
- the practicality of including in smart meter customers’ bills the consumption read corresponding to the start of the billing period.



As we have submitted previously, there are problems with providing index reads on bills, and this additional index read will amplify those problems. Placing both figures in front of the customer is likely to be confusing, as the difference in these reads will not align with the basis of the bill. Levels of substitutions will be reflected in the reads, where an absence of a read (thus requiring a substitution) will not show in the accumulation amount, yet the customer will have been billed for substituted periods. This will have occurred in line with the Metrology Procedure, and would originate with the distributor as the meter provider and meter data provider, but retailers' call centres and the Ombudsman will see increased enquiries and complaints as some people will add the figures and believe they have been overcharged as a result of the discrepancy.

Further, where someone moves and/or switches to a new retailer, a discrepancy will occur where the start of the billing period will align with time of re-energisation, but the index read will start from the first midnight of the customer being with that retailer. For a customer re-energised at 8am this period could thus be 16 hours. While this may only be a small amount of money (say \$3 for a small customer) for larger business consumers this will be more significant. Retailers will thus receive calls (as will the Ombudsman) from customers who believe that they have been overcharged relative to the index reads on the bill.

Retailers can manage these calls but we note that the customer is unlikely to come away from the call with a particularly strong sense of satisfaction. For substitute-based queries they will have to be told that the bill stands and that it had some substitutes in it (for specific technical reasons that the retailer was not privy to), where the amount billed was based on another technical document, and there is no further action that the customer or retailer can take. For the 'lost day' for a new customer, the information will be similarly unedifying.

The costs of this customer confusion to customers, both in their time to investigate something that was odd to find it was right (but opaque), as well as the costs passed through from increased call volumes and Ombudsman queries and complaints, should not be dismissed. If the benefits cannot be proven to outweigh these costs, regulation in this area should not go ahead. It is already a problem that the Commission has chosen to embed the old way of doing things in the new environment by mandating an index read for the end of the billing period: the index read will not match the bill in the way that those customers who value it will expect. A further index read will just reinforce the problem and customers will not be any better off.

A further practical issue relates to the provision of this information to the retailer in the first place: meter data providers will need to reliably provide this to retailers. Before mandating this information on retail bills, the Commission needs to be highly confident that this will happen as required.

I would be happy to discuss any aspect of this submission further with the Commission, and at your convenience. If you have any queries about this submission please contact me on the number below.

Yours sincerely

[signed]

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