



24 February 2010

Attention: Ms Khayen Prentice

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

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

Dear Ms Prentice

RE: REGULATORY REVIEW - SMART METERS

Thank you for the opportunity to provide input to the scope of the Commission's *Smart Meters Regulatory Review*.

While Origin has some concerns about re-opening issues that have already been examined by the SCO through the NECF, we agree that some matters still require clarification. In this regard we support the review, but we caution the Commission on the scope becoming too large and effectively reopening several issues that have already been consulted upon in other fora.

Reconciliation between the meter and the customer bill

The first issue raised in the Commission's Open Letter relates to how customers are provided with transparent and accessible information to enable them to understand the basis of their bills and to manage their energy consumption.

Fundamentally the implementation of time-of-use (ToU) tariffs through interval meters means that the principle of easy bill reconciliation may potentially be compromised. It will no longer be a matter of checking an accumulation meter against a total number on a bill

Origin recognises that this is an important issue to consumers, and from a retailer's perspective may potentially drive increases in complaints and Ombudsman queries. However, as noted above, the resolution of this is complex and may prove to be one of the two most time-consuming matters for the review.

The review will need to establish a practical means of providing for the spirit of the reconciliation requirement with the new technology and tariff structures, and this will necessarily have to involve tradeoffs between information technical accuracy and easy digestion of (still meaningful) information.

Customers with payment difficulties

We note that the Commission will be addressing whether customers who experience difficulties paying their bills receive adequate assistance if their account cycles change because of smart meter billing.

It is understandable that this has come up as an issue given the recent concerns raised by consumer advocates about the costs to customers on low incomes subject to ToU type tariffs, particularly those people home during the day and unable to shift load to off-peak periods. However, discussions on customer bill affordability issues tend to have somewhat predictable outcomes in energy debates, and these involve focus on retailers' hardship programmes and little else. This topic has been addressed in some detail to date and Origin is unclear how much more can really be required of retailers at this stage. Further, extensive consultation under the NECF has already established a national framework for hardship provisions (albeit still in draft form).

While Origin does not shy away from its responsibilities to its customers in financial hardship - and we believe we have a good track record in this area - we feel that the matter of higher bills (particularly in terms of the seasonal cycles) for specific categories of customers arising from ToU pricing is a matter largely external to retailers. Therefore we seek that any assessment of increased need for support for customers in hardship should also look to government rebates and improved and targeted concessions policy for outcomes. We also suggest that there may be ways of assisting certain customers via their distribution charges.

On this issue, we also note the Commission's review of hardship programmes is occurring in tandem with this smart meter review, and we are keen to participate in this review, as already advised to the Commission.

The monthly billing and collection cycle

Linked to the previous point, and as the Commission has identified, it is likely that customers' account cycles will change, potentially to monthly billing and collections from 2011. This will mean that the current collection cycle as we know it will have to be reworked, which will be highly contentious and will require serious consideration and time to resolve. In fact, Origin is concerned that the time to 'resolve' this issue (in the sense of outcomes that allocate risk equitably and are not confusing for customers) may extend beyond the time allocated to this review.

Origin notes that the need for this change is being driven by the intention of the distribution businesses to collect network use of system charges (from all customers for 100 per cent of their energy) on a monthly basis. A retailer not billing and collecting on a monthly basis will face significant, unrecoverable working capital costs that will be borne by its customers and (in Origin's case) shareholders.

Therefore, in Origin's view there must be the opportunity for some alignment between distributors and retailers, and this alignment needs to spread risk appropriately between the various parties. This is necessary not only for retailers' needs but to increase efficiency of the system and thus reduce costs to consumers.

Notwithstanding the need for alignment and the significant transitional issues identified above, Origin believes that in the longer term monthly retail billing may provide better outcomes for consumers, for example through the avoidance of substantial bills accumulating over a long period.

Remote connection and disconnection

The Commission has advised that it will address the procedures in place to facilitate premises being remotely connected and disconnected from supply, to ensure these are sufficiently robust to protect customers from errors in connections and disconnections.

Origin would like to see this aspect of the review clarified – is this about safety issues, which are already being considered by Energy Safety Victoria, and which have also been recently examined through a risk report from consulting firm GHD, or is this about further wrongful disconnection provisions? We have to assume that it is not about wrongful disconnection given the recently closed consultation on that matter.

More generally, Origin notes that remote connection and disconnection (in the context of well developed procedures) provides a positive opportunity for improved efficiency in the industry and enhanced service to customers. For instance, connection and reconnection for move in/move out customers will be greatly facilitated from a customer's point of view, with much lower costs. Similarly, customers subject to disconnection for debt can also be reconnected more quickly and at lower costs.

Pricing and potential distributional aspects

We note that the Commission intends to address the current and potential future standing offer and market offer tariff structures, and that this work will inform the Government's analysis of the potential distributional aspects of ToU pricing on various customer groups.

To the extent this is used to support targeted government assistance programs Origin is supportive of such a review. However, it is not clear that this is all the review intends to cover. While it is early in this process, we would like to point out that any plans to mandate tariff structures or levels will just perpetuate cross-subsidies, and thereby undermine the potential benefits of the investment in smart meters. Also, the nature of these cross-subsidies may not be as predictable as some expect.

For example, it is quite likely that a number of low income consumers will be better off under ToU pricing as they will no longer be subsidising other consumers' use of air conditioning at peak times. These issues should be understood very well before any moves are taken to flatten tariff structures. Any form of price regulation would seem to be at odds with the whole premise of ToU pricing and interval meters, and is likely to have significant detrimental effect on the benefits of deploying advanced metering. Any negative distributional effects felt by ToU pricing is a matter for government concessions policy and for direct government rebates to address.

In addition, as we have highlighted in previous sections, any attempts to limit retail pricing structures without commensurate limit on distribution network charges will only add to costs and subvert the objectives.

Estimated bills - what is an estimate?

We note that the matter of estimations has not been addressed in the Commission's Open Letter, and we request that it be included in the review scope. Currently there is no policy on when a bill using interval meter data is an 'actual read' or an estimate, and the nature of the new technology will effectively render the current accumulation meter approach meaningless. Given that the meter will be read remotely on the half-hour, the notion of a bill being 'estimated' because a person could not physically read the meter every three months - as is currently the case for estimated reads - will no longer be valid.

While we anticipate that under some circumstances there might be a loss of data for an interval metered customer, this will rarely be for more than a few half-hourly reads, and in any event the data can be substituted within a couple of days with actual data. However, under some circumstances estimated data will be required. Our preliminary views are that this would be less than 10% of the time, maybe more in the vicinity of 1-2%. This issue needs to be addressed and better understood through the review.

Origin would also note that the NEM Metrology Procedures currently address estimations and substitution methodologies of various meter types classified by AEMO. Origin believes that in the first instance the Metrology Procedure should provide some guidance on what would constitute an estimated read for the purposes of customer billing in Victoria. However, this is another complex area, and Origin considers that the current Metrology Procedures for estimation and substitution of small customer data may need to be reviewed in conjunction with the roll-out of interval meters.

Please direct questions about this submission to Dr Fiona Simon, on 03 8665 7865.

Yours sincerely

A handwritten signature in cursive script, appearing to read "B J Hughson".

Beverley Hughson
Manager, Regulatory and Relationships
03 9652 5702 - bev.hughson@originenergy.com.au