ESC Regulatory Review – Smart Meters Issues Paper – April 2010

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SP AusNet
A member of Singapore Power Group

About SP AusNet

SP AusNet is a major energy network business that owns and operates key regulated electricity transmission and electricity and gas distribution assets located in Victoria, Australia. These assets include:

- A 6,574 kilometre electricity transmission network indirectly servicing all electricity consumers across Victoria;
- An electricity distribution network delivering electricity to approximately 575,000 customer connection points in an area of more than 80,000 square kilometres of eastern Victoria; and
- A gas distribution network delivering gas to approximately 504,000 customer supply points in an area of more than 60,000 square kilometres in central and western Victoria.

SP AusNet's purpose is to provide our customers with superior network and energy solutions. The SP AusNet corporate values are :

- Safety: is our way of life. Protect and respect our people and our community.
- Passion: to bring energy and excitement to what we do. Be innovative by continually applying creative solutions to problems.
- Teamwork: to support, respect and trust each other. Continually learn and share ideas and knowledge.
- Integrity: to act with honesty and to practise the highest ethical standards.
- Excellence: to take pride and ownership in what we do. Deliver results and continually strive for the highest quality.

For more information visit: www.sp-ausnet.com.au

Contact

This document is the responsibility of the Regulatory and Business Strategy Division, SP AusNet. Please contact the officer below with any inquiries.

Peter Ellis
Network Market Service Manager
SP AusNet
Level 31, 2 Southbank Boulevard
Melbourne Victoria 3006
Ph: (03) 9695 6629

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EXECUTIVE SUMMARY

SP AusNet have provided comments against a number of the Issues for Consideration identified in the Paper.

A number of these SP AusNet comments are broadly related to ensuring that the Commission's further consideration of the identified issues is fully cognisant of the need to achieve a regulatory regime which meets not only the laudable Guiding Principles outlined in Section 2.1 of the Paper, but also facilitates an electricity pricing regime which is more cost reflective and an enabler of customer demand side management with the resultant societal cost benefits envisaged for the smart meter rollout.

The key specific issue of the regulatory regime which impacts SP AusNet is associated with establishing the regulatory support for the transition from quarterly to monthly network billing.

The SP AusNet partially built and tested AMI systems which will be fully in service late in 2010, have been designed on the basis of monthly billing, and there are cost and timing impacts of change now. SP AusNet cannot understand the basis of the retailers' concerns regarding the ongoing financial impacts of the change to monthly billing, and whilst we acknowledge a transitional cash flow cost, consider that this is relatively small. We are strongly opposed to the concept of extending payment terms for network bills as we assess that the resultant increase in our aged debt levels will potentially have significant impacts on SP AusNet financially.

We consider that an early Commission decision to establish a regulatory change to monthly customer billing (with associated change to the default UoSA to facilitate monthly network billing) is the most appropriate outcome.

APPROACH TO THE REVIEW (Ref 2)

2.1 Guiding Principles

Are there other guiding principles to which the Commission should give consideration in this Review? Ref : Page 7

SP AusNet strongly support the four specific principles as identified in the Paper, however it is considered that these do not fully reflect the Commission's Principle Objective of promoting the long term interests of (all) Victorian electricity consumers, nor are they fully cognisant of the key Government justification of the Smart meter program. This was to facilitate an electricity pricing regime which was more cost reflective, and enabled customers to better understand and manage their consumption with the ultimate aim of achieving significant societal cost benefits. The regulatory regime associated with Smart meters should be a key enabler of customer Demand Side Management (DSM).

Whilst SP AusNet is fully sympathetic to the need to protect vulnerable customers, all considerations of the smart meter regulatory regime must also have as a major aim and principle the achievement of this long term overall benefit. This must by definition result in customers who consume energy in periods of high energy cost, and/or of high electricity transport cost, paying proportionally higher charges than customers with more restrained consumption in these periods. This requires amongst other things, a regulatory approach which recognises that when electricity is consumed will be a large factor in determining customer bills, rather than just how much is consumed.

SP AusNet are not suggesting that the addition of a Guiding Principle reflecting this desirable outcome of the Smart meter rollout would necessarily change any of the specific recommendations of this Review, however it is important to recognise that the Smart meter societal benefits can only be achieved through the more accurate distribution of costs to customers with less desirable consumption patterns and the reflection of these costs in their electricity bills.

KEY ISSUES FOR CONSIDERATION (Ref 3)

3.1 Vulnerable Customers

Are there enhancements to the current regulations which are necessary for vulnerable customers arising from the implementation of smart meters? Ref: Page 11

The Paper mentions in this Section a proposed customer warning regarding disconnections potentially being carried out remotely.

Remote switching is discussed in more detail in Sections 3.3.1 and 3.3.2 of the Paper and SP AusNet have made more detailed comments regarding this aspect of Smart meter regime in reference to those Sections. We note here that the requirement for a customer warning is not related specifically to "vulnerable customers" but rather is to ensure the safety of all customers in remote switching scenarios.

3.2.1 Reviewing the bill - Verifying the Accuracy of the Bill

1	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?
2	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? (Ref: Page 13)

SP AusNet have no comments on the specific questions but make the following points:

(i) re total accumulation consumption reading

SP AusNet are pleased that the Commission have acknowledged that "the total accumulation consumption reading on the meter may become increasingly remote from cumulative consumption figure…." due to the effects of substitutions. [1]

SP AusNet consider that if the total accumulation consumption reading is provided on customer bills, it will be difficult for industry, the Commission, and other involved parties (DPI, EWOV, etc) to explain this difference. It will be very difficult to satisfactorily convince customers that their bill is based directly on accurate interval energy data from the meter, but that this may be different to other accurate data (the total accumulated consumption) also extracted from the meter!

As stated in our comments on the Guiding Principles in Section 2.1 of the Paper above, achieving the key benefits from the Smart meter rollout will require customer billing based on consumption in data intervals. Customer bills, particularly for peak periods, will be impacted by when they consume, and ultimately with critical peak pricing type tariffs could be significantly dependant on consumption in possibly only a few intervals. For this fundamental concept to be successful, customers, and the parties involved in customer billing questions

[1] We note also that total accumulated energy will possibly (likely?) not be extracted from the meter at exactly midnight and hence the total accumulated energy reading delivered to retailers with, or in conjunction with, their daily metering data delivery for the period to midnight the previous day will not correspond to the same period. If the best possible alignment of the aggregated interval data and the total accumulated energy reading is to be achieved the retailer would need to generate the customers bill from the interval data as at the time of the total accumulated energy reading.

and issues (ESC, consumer groups, EWOV, etc), are going to have to "trust" the interval data. There will need to be a major effort to educate consumers and convince them of the viability of the data process and metrology arranagments. This will require them accepting that the industry metrology arrangements as managed by AEMO produces rigorous metrology outcomes. The key features of these arrangements such as:

- rigorous linking of address, NMI, and meter number,
- detailed metrology procedures and rules, and
- use of independent accredited and audited parties with AEMO oversight,

will need to be explained in detail.

However SP AusNet consider that there may need to be more consideration of how consumers and the involved parties achieve a level of assurance that once data "leaves" this process and is passed to retailers that the data remains without manipulation before it appears on the customers bill. This may mean that Retailers must give up any flexibility to vary the market data, or at least establish clear auditable processes which are scrutinised to the same level that the accredited data providers are.

(ii) re terminology

We note that the term used in the Victorian Functionality Specification and the Victorian Service Level Specification is "total accumulated energy" not "total accumulation consumption" as in the Paper. It will be important in ensuring customer confidence in the data process to align terminology. Use of the Victorian Functionality Specification and the Victorian Service Level Specification term would appear to be advantageous.

(iii) re access to total accumulated energy reading

The Paper is incorrect in stating that the retailer will not have total accumulated energy reading (p14 second paragraph). The requirement in the Victorian Service Level Specification is for this detail to be provided daily to the Retailer from 1 Jan 2012.

3.2.1 Reviewing the bill - Estimated Data on Bills

1	Comments are sought on when customers should be advised that their bill is estimated.
2	Comments are also sought on whether there should be some default tariff arrangements impacting distributors, retailers and customers when bills are estimated. (Ref: Page 15)

SP AusNet makes the following general points:

i) re terminology

Whilst the definitions in the Paper applied to "estimated reading" (ie reading generated when data is in the meter but not read) and "substituted reading" (ie reading generated when data is lost and not able to be recovered) is applicable for the VicGas market, in electricity metrology these terms are used in a different way:

- an "estimate" is metering data generated for a future period (when data is required to meet a market settlement date but before a read is scheduled), and
- a "substitute" is metering data generated when a read was scheduled but not obtained (eg no access). A substitute becomes a "final substitute" if actual data can no longer be recovered eg meter damaged or no access extends for a long time period such that data is no longer retained in the meter.

Estimates as defined in metrology are generally not used by retailers (or distributors) for billing, although they are provided to retailers to support their settlement reconciliation. The current expectation is that this billing does not happen until after the scheduled read date. After the read date if actual data is unavailable the data service provider substitutes for the missing data.

However, it is understood that some retailers bill on a calendar month basis using, not metering data following a read (whether actual or substituted data), but rather an "estimate" generated by the retailer. This estimate is not necessarily generated in a manner consistent with the Metrology Procedure, not necessarily generated by an accredited data service provider, and is not subject to AEMO scrutiny. These monthly estimates could be partially actual or substituted data, and could be based on the formal market estimates provided to the retailer for settlement reconciliation (as detailed above).

We suggest therefore that in moving forward this aspect of the Smart meter regulatory framework, that the Commission include in their considerations the following:

- a clear definition of what aspects of the data process are being considered when reference is made to "estimates" and "substitutions"
- whilst we are not aware of how Retailers currently use these terms when communicating with customers, alignment with metrology usage should be the aim if it does not confuse current use of the terms,.

ii) re access to metering installations

Although issues associated with access for meter reading will largely be eliminated with remote read meters, there are potentially still access issues associated with meters including communications equipment repair. Distributor field operational experience with remote communication systems of the type used for the AMI rollout are limited, but it is anticipated that failures will be minimal. However in the ultimate regime where distributors generally have little need to visit site, access to meter installations where there are failures (including malicious damage) could become more problematic.

SP AusNet is not suggesting that the current regulatory review consider this matter except to note that access issues will not fully disappear, and that this will require monitoring and could require future consideration.

Question 1 Comment

SP AusNet makes the following comment with respect to the first of the questions in the box above (1) and also regarding the question in the box below:

SP AusNet can understand the broad driver for providing customers with an indication whether their bills, or part thereof are based on other than actual metering data. We would agree that ideally customers should be given the opportunity to consider, and dispute where necessary, substitute data which they consider does not correctly represent their consumption in the particular substituted period. [2]

However, in most scenarios the substitute provided by the distributor appointed data service provider, which is based on the national Metrology Procedure, will be the best engineering value to represent the lost energy.

[2] Current industry B2B processes and procedures, and business internal processes, support this requirement for "verification" of substituted metering data provided by a data service provider .

(i) Substitutions not final substitutions

Where the substitution is not a final substitution, the substitute data will generally be overwritten by actual data from the meter. The ultimate impact on the customer will not in this case be the difference between the substitute data and the actual data ultimately obtained, but rather just the cash flow cost (the interest) on the difference. This will generally be a very small amount given the normally small size of any difference and the short time period involved.[3]

Hence for a non-final substitute there is some argument for the customer to be not informed, as providing this detail is likely to raise a level of customer comments and dispute which will increase total industry costs to the financial detriment of all customers, for a situation which is more than likely to be rectified in the next bill.

(ii) final substitutions

If the final substitute data is only a small number of intervals (as might result from interference eg a voltage spike) then there is little way that the customer can legitimately contribute to the improvement of the accuracy of the resulting substitution. This is very much a 'mechanical" Metrology Procedure defined process which fills the gap in actual data. Note that in a monthly bill with 1440 intervals (48 per day over 30 days) each interval represents less than 0.01% of the overall bill period.

If the substitute data represents a full day or more (or a substantial part of a single day) it could be argued that in this case the customer may realistically contribute to improving the quality of a substitution. Note that in a monthly bill each day represents 3.3% of the total intervals covered by the bill. For example: a customer who is not in residence for a whole day and as a result consumption that day was very low, could legitimately be therefore given the opportunity to dispute an estimate which, whilst compliant with the Metrology Procedure, was based on a "like day" where the customer was home and consuming.

Hence a reasonable rule might be that a customer should be informed if a whole day or more of data is substituted (or alternatively this period could be reduced to say 12 hours) to give the customer the opportunity to dispute substitutions which embrace the major consumption period.

(iii) Critical Peak Pricing Period (CPP) substitutes

SP AusNet consider that given that ToU tariff finalisation is some period off, that consideration in the current review of CPP substitution where a single interval could produce a significant impact, and of the associated billing rules, would be premature.

Question 2 Comment

SP AusNet makes the following comment with respect to the second of the questions in the box above (2):

We understand that this question was seeking comments as to whether the regulatory regime should recognise the issues in the market of substituted data and therefore include a provision which penalises a participant whose processes are leading to customer bills based on unnecessarily high levels of non actual data.

The Victorian Service Level Specification (SLS) contains stringent obligations for the delivery of daily interval data to retailers. It requires 95% of the data for the previous 24 hour period to be delivered by 6am; 99% of the data by the same time the next day; and 99.9% of the

[3] The Victorian smart meters provide the full 220 days of storage required to qualify as a type 5 meter and when in operation as a smart meter with daily reading it is extremely unlikely that data will be permanently lost unless there is a catastrophic failure of the meter (destroyed, stolen).

data in 10 days. These are averages and take into account impacts of failure of individual meter communications and broader failure events eg system failures.

Given that these stringent data obligations will be scrutinised by retailers and failure would be a recognised and reportable obligation breach, it would appear to be superfluous to impose a tariff based penalty regime.

3.2.1 Reviewing the bill - Substituted Data on Bills

The proposal is to retain the current requirement that customers be notified that any part of a bill is based on substituted data (Ref: Page 16)

Refer SP AusNet comments above.

3.2.2 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: 1 Whether an 'opt-out' approach to monthly billing for deemed or standing offer customers is appropriate? 2 What are the implications for the costs and timing of the current collection cycle if customers move to monthly billing? 3 How should any changes to the customers' current billing cycles be implemented? (Ref: Page 17)

General comment

Historically the customer read frequency was determined as the best compromise between maintaining industry cash flow, and the number of meter readers and the associated cost.[4] The second factor and limitation is obviously removed with remote reading.

For the fundamental DSM aim of the smart meter rollout to be achieved, price signals need to be presented to customers reasonably soon after their consumption decisions. There would appear to be general agreement to this principle and to the consequential need for monthly billing of customers. As stated in the Paper in the footnote on p30, monthly billing is clearly part of the Government's policy with respect to smart metering.

The AMI Process Model is based on monthly billing and has been endorsed by the ISC (distributors and retailers) and through their involvement on the ISC scrutinised by DPI and the ESC. As stated in 3.2.2 of the Paper there is a range of support from at least some consumer groups[5] and by many retailers for a move to monthly billing. The Ontario pricing study is quoted as having a "key finding" that "customers believed that a monthly bill was essential…".

[4] The limited number of customers on monthly reads was initially to result of limitations in CIS systems of bill amounts to three digits ie less than $1000.

[5] There appears to be some concerns regarding "mandating" a change of billing frequency

The Paper also states that the Commission's expectation is that whilst more frequent billing may increase retailer costs, that this will be offset by reduction in working capital costs and in bad debt costs.

There would appear therefore to be a reasonable volume of opinion that monthly billing is desirable.

Question 1 Comment

Although not specifically discussed in the Paper, presumably the support outlined above would extend to all customers so that all are provided with the opportunity to respond as soon as possible to high bills and hence modify their behaviour before further impacts. Whether all customers currently understand this, the situation will be their electricity costs will be impacted by their consumption behaviour, and it would be wrong to allow a specific customer's lack of understanding at an early stage of the new Smart meter regime, to commit to a quarterly billing frequency which will not enable them to best understand and respond to price signals.

There are also advantages in having a consistent approach across all customers which eliminates a differential hence simplifying customer interfacing in call centres, etc.

Further as noted with respect to the next question regarding graphical information on bills, whilst daily data which provides tariff block details in a clear manner appears possible, providing ninety days of data with this detail clearly would be problematic.

An "opt out" type approach where a monthly bill cycle is imposed accept where a customer notifies otherwise is hence not considered appropriate.

Question 2 and 3 Comment

It is unclear to what the reference in this Question to "current collection cycle" is referring. SP AusNet would consider that customers would move to a monthly billing cycle following the installation of their Smart meter and the routine gathering of interval data remotely from their meter.

Customers during the rollout who still have their current meter would remain on their current read cycle.

3.2.2 Managing daily consumption and costs – 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.

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

2 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. (Ref: Page 18)

General comment

SP AusNet consider that providing an increased level of detail in graphical information on the bill is an essential part of increasing customer understanding of their consumption details and enabling them to understand the impacts of changing their consumption patterns.

However SP AusNet consider that any increased detail on bills must be carried out in association with the graduated move to ToU tariffs as is now proposed by DPI and as we understand has been endorsed by the Customer Consultative WG (CCWG).

As demonstrated by the sample Ontario bill format, daily data can be accommodated relatively clearly on a bill. This would only be the case if the billing cycle is monthly. However to extend this level of information across a quarterly bill, or even a 2 monthly bill, would probably clutter a single page too much and even if three monthly pages were provided, is likely to overload the customer's capability to take in the volume of detail. This may lead to less, rather than more customer consideration of the detail.

However as is also demonstrated by this sample, this level of content in the bill is likely to be very confusing to many consumers without a relatively extended and extensive amount of customer education. This would appear to be consistent with the CCWG approach of a graduated transition to full ToU tariffs.

Hence changes to customers bills need to be an integrated part of the move to ToU tariffs.

3.2.2 Managing daily consumption and costs – 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:

1 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?

2 Would it be helpful or not for customers to have some charges unbundled, but not others?

3 Does unbundling of network charges and tariff alignment have the potential to reduce retailer flexibility in tariff offerings?

4 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? (Ref: Page 21)

General comment

It is assumed that given the stated scope of this Paper, that this issue has been raised in the context of potential upsides and advantages of unbundling on the achieving of the desired outcomes from smart meters. There have been previous debates with respect to broader factors associated with unbundling, for example the perception that detailed unbundling allows better scrutiny of industry costs and profits, but in our understanding these factors are outside the scope of this Paper. SP AusNet comments therefore are with respect to the potential advantages of unbundling on the Guiding Principles of this Review and the SP AusNet suggested broader principle of achieving the key DSM outcomes from the Smart meter rollout.

The key driver of customer consumption behaviour is going to be price. The price paid by customers is that derived from the retail tariff. Reasonably the retail tariff should reflect the retailers costs and should be structured to give the customer the price signals to alter their consumption to periods of lower price and therefore lower costs.

The retailers' costs are largely driven by the two components of energy costs (generation) and delivery costs (distribution (and transmission)). If the retailers tariffs are structured to reflect their costs then by responding to the price signals in these tariffs the customer will be responding to a balance of the generation and distribution costs as perceived by the retailer.

As stated in our comments on the Guiding Principles in Section 2.1 above, the customer costs and bill focus going forward is increasingly going to be on when customers consume, as this is what will impact their applicable tariff rate and therefore the cost of consumption at any point of time. Therefore having the energy and distribution cost components each as a single billing period split is not going to provide any support for a customer's consumption decisions. Further even if the energy and distribution costs in different periods could be presented in a logical way to customers (and this would potentially significantly complicate the bill including the graphical presentation of billing details), a customer altering his consumption patterns with the intention of reducing the distribution component of the bill for whatever reason (rather than the energy component), will only get a resultant cost saving if the retailer tariff reflects distributor costs in the time period where the customer is making their consumption changes.

Hence attempting to provide time based distributor cost information to customers will complicate the customer message and does not support customer behaviour in a manner which contributes to the key DSM outcome sought by the rollout.

3.2.2 Managing daily consumption and costs – 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. (Ref: Page 22)

SP AusNet agrees that it is premature to consider specific regulatory aspects of tariff and tariff change until the approach to tariff change of the DPI and the CCWG is further developed and agreed to.

As stated in our comments on the Review Principles we consider that tariff based price messages to customers is an essential component of achieving the desired user pays and DSM outcomes of the rollout. We are concerned therefore that the Commission has pre-empted the outcomes of the DPI and the CCWG by stating that consent is a necessary part of changing customer tariffs (second paragraph p23 of the Paper). As we have outlined in our comments on the Review Principles, a necessary part of changing of customer consumption patterns is applying customer tariffs and therefore costs which reflect the higher industry costs in particular periods. The aim is for customers to make informed decisions based on these cost messages to alter their consumption habits. To allow customers to choose whether or not to have higher costs as a result of their current usage patterns imposed on them through ToU tariffs appears fundamentally inconsistent with the broad intent of the rollout program.

This is also inconsistent with the tariff change "principles" established by the ESC in the EDPR determination which provided a basis for a distributor's tariffs for AMI Smart meters to be imposed on customers. The EDPR recognised that the imposition of tariffs as part of the rollout was different to the general requirement that the distributor can only impose tariffs as a result of a change in a customer's usage level or as a result of a fundamental change in the usage pattern at the site. This allowance for the distributor to impose tariffs as part of the AMI rollout was presumably because the related tariff changes were viewed as essential to achieving the endorsed ESC rollout aim of enhanced DSM outcomes.

SP AusNet recognises that a case has been made regarding the potential adverse impact on a proportion of vulnerable customers who cannot for financial reasons vary their consumption patterns and/or afford the higher costs associated with consumption in peak

periods. On this basis special arrangements may need to be made for this category of customers.

3.2.2 Managing daily consumption and costs – 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? (Ref: Page 23)

SP AusNet have no comment on this issue.

3.2.2 Managing daily consumption and costs – 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: 1 whether distributors as well as retailers should be obliged to provide metering data sets to customers 2 how distributors or retailers can provide interval data from smart meters securely to customers 3 how would the cost of such a service be assessed? 4 What other information and information sharing issues should be considered by the Commission in reviewing the regulations? (Ref: Page 24)

Comment on Question 1

SP AusNet consider that it is appropriate for the retailer to be the primary source of metering data for customers. SP AusNet has argued this way in our submissions on the National Energy Customer Framework (NECF).

Conceptually the distributor should only be seen as a data provider “of last resort” where a retailer has failed to respond to a customer’s request on provision of data, or where a customer is concerned that a retailer has manipulated the data. However in both these situations the distributor data provision could be seen as a regulatory backstop until the AER has taken action to ensure the retailer in question provides the necessary customer support.

A fundamental of the Victorian Functionality Specification was the provision of interval data to retailers daily. Amongst the justification for this data service level was the retailers stated requirement to have this data to support interfacing with customers. This fundamental data requirement appears to support the concept of the retailer being the primary source of metering data for customers.

However, SP AusNet understand that retailers have no specific metrology requirement to keep data and prevent its corruption, nor to provide recognised backup and disaster recovery arrangements, etc. Given the potential frequency of customer access to data and the level of detail involved, it may be appropriate to consider strengthening regulatory obligations regarding the integrity of this meter data provision.

Whilst we understand that retailers have a range of pre-obtained details to use when identifying customers when contacted for matters such a meter data provision, distributors generally do not have access to these type of customer identification details. SP AusNet currently does occasionally provide data directly to customer as required by the Distribution Code (or often to energy audit agents or other parties acting on their behalf), but for this we demand a letter or other form of clear consent. Whilst this is somewhat inefficient, it is satisfactory for the current small number of requests. But for distributors to take a more extensive role in data provision would require the distributor having a copy of the identification details used by the retailer when validating customer identities. This would require details to be added to the Customer and Site Details B2B process and transactions.

SP AusNet do recognise that a potential alternate approach would be to rather allocate the customer data provision role to the distributor. Whereas this would involve a reasonably fundamental change in the primary customer relationship with respect to billing support data, its would overcome some of the issues outlined above with respect to retailer having this role.

SP AusNet would conditionally support a change to focus to the distributor providing this customer data provision role. We consider however that such a change would be based not on the distributor providing a customer contact centre to take verbal or email data requests, but rather the distributor establishing a web based access portal for the obtaining of data by customers. The establishment of such a facility would require recognition of:

- the need for distributor recovery mechanisms for the cost of establishing this type of data access mechanism, and the need for an extended timetable to establish such a facility and the related industry processes.
- the need for customer identification mechanisms to be established for access to this type of facility
- the need for an alternate process for customers without access to web based facilities

Comment on Question 2Refer to SP AusNet comment above regarding possible alternative data provision approach from distributors.

Comment on Question 3 and 4

SP AusNet have no specific comments on these questions.

3.2.3 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. (Ref: Page 25)

SP AusNet have no specific comment on this question.

3.3.1 Remote disconnection and reconnection - Prompt service

Should the regulation require the distributors to disconnect and reconnect premises more quickly if the smart meter functions are available? (Ref: Page 27)

The Victorian Service Level Specification (SLS) imposes on distributors the obligation to carry out re/de-energisations remotely where they have the capability to do so. The SLS does not impose tighter timing requirements than those applying to current manual re/de-energisations (same day if requested before 3 pm, otherwise next day). The strategy with respect to this was that whilst it ensured that the current cost of re/de-energisations based on a site visit was removed, the details of the processes for tighter time frames was left to the national Smart meter framework to establish so that national consistency was achieved, and necessary changes to the industry processes and the associated Procedures, were carried out through national mechanisms.

This approach also allows some feedback from the Victorian initial period of remote re/de-energisations practice to be considered as part of ensuring practical and safe national processes.

The Victorian AMI Operating Model includes processes for remote re/de-energisation which meets or betters the SLS.

SP AusNet considers that the SLS and Operating Model based processes (and timing) should remain until further work is carried out in the national Smart meter program. Any changes to this could require further risk analysis and hence probably delaying further the customer costs savings from remote re/de-energisations.

3.3.2 Remote disconnection and reconnection - Customer protection under disconnection

1	What steps could be taken by the distributors and/or the retailers to ensure that the wrong customer is not disconnected with smart meters?
2	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? (Ref: Page 28)

Comment on Question 1

There is some chance that during a manual de-energisation the distributor operative when visiting the site may make contact with the customer, and by discussion with the customer ascertain a view that possibly the site should not be subject to a disconnection. This assessment is however a very difficult one for the distributor operative. This contact and the resultant operative assessment could prevent a wrongful de-energisation; however equally it may lead to a situation where a customer who is wilfully exploiting the retailer (and ultimately imposed industry costs on the broader customer base) is incorrectly not disconnected.

The Commission has to date not given the distributor any formal discretion to make this type of decision and, unless there are clear health and safety issues, the distributors' role is to carry out the retailers' bidding. Hence the current presence on site of a distributor operator does not formally improve the chance of avoiding a wrongful disconnection, and may result in a legitimate disconnection not being carried out. The latter circumstance is clearly avoided with remote de-energisation.

Comment on Question 2

SP AusNet support the view that customers should be informed that de-energisation (and re-energisation) will now potentially be carried out remotely. Customers having this understanding is an essential component of the safety regime which the industry is establishing for the use of the remote switching functionality of Smart meters. This requirement is applicable whether the disconnection is for long term debt, for move out, or for any other reason.

SP AusNet make no further comment on the need to add further retailer verification steps before the de-energisation request is provided to the distributor, except to point out that, given the current lack of discretion given to the distributor to not de-energise on site under current Distribution Code approach, it is unclear how the remote de-energisation situation makes the risk of a incorrect de-energisation worse and hence justify additional checks.

3.3.3 Information to new customers after remote disconnection

1	Under remote disconnection should the Commission require that information be provided by a sticker placed in the meter box?
2	What other options are available for ensuring new occupants know how to go about finding a retailer and getting reconnected? (Ref: Page 29)

Like the Commission, SP AusNet does not have details on the number of customers who on moving in to a new premises are unclear how to get supply re-energised. It is difficult therefore to gauge whether the suggest Commission approach of a sticker in each meter box is an appropriate response to the issue.

This proposal is not without costs and issues:

- We understand that at least two distributors will have ceased manual reading of sites with Smart meters before the decision regarding the need for a label is finalised and hence special site visits and associated extra costs will be required for these customers
- There will be a percentage of sites which do not have space and/or suitable surfaces to mount a suitable sized, self adhesive label
- The Commission is suggesting that the label include “an appropriate call centre number” however, given the rate of change in the industry, such a call centre (whichever call centre is nominated) may not be appropriate in a number of years time. This would require a new sticker to be applied in future after the rollout, and after manual reading is no longer required, and hence require a special installation effort to all customers at a relatively high cost.

3.3.4 Safety Considerations

The regulatory proposals set out above do not appear to be impacted by these developments. However the Commission welcomes comments on this view. (Ref: Page 30)

SP AusNet general comments:

The distributors have commissioned an independent expert report on the safety risk associated with remote re/de-energisation. Based on the report content the distributors and the retailers have established in the Victorian AMI Process Model processes associated protocols for remote re/de-energisation.

These processes and procedures will form the basis of SP AusNet documents which will form part of the SP AusNet Electrical Safety Management Scheme (ESMS). Whilst this could be added to the ESMS at any time, the SP AusNet approach is to have this in place as part of the current annual update of the SP AusNet ESMS which, as stated in the Paper, must be submitted and approved before the end of 2010.

3.4 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.[6] 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. (Ref: Page 30)

As stated in SP AusNet comments on Section 3.2.2 of the Paper dealing with customer billing frequency there appears to be broad agreement as recorded in the Paper that monthly billing of customers is desirable including for ensuring timely customer response to price signals. Whilst not stated in the Paper, presumably those supporting this approach would agree that monthly customer billing would be supported by monthly distributor billing of the customer through their retailer.

However there are two regulatory "barriers" to moving to monthly customer and network monthly billing:

- The default Use of System Agreement (UoSA) by virtue of the wording in Item 3 of UoSA Appendix locks in the meter read frequency for the each connection point as the frequency in existence at the UoSA Commencement Date, and only gives the Distributor choice of frequency for customers connected after the Commencement Date.

  If the default UoSA is not changed then for distributors to change to monthly billing would require the distributor to negotiate individually with each impacted retailer new UoSAs or addition to their current UoSAs.

[6] Note the current UoSA payment period is 10 days not 14 days.

- The Retail Code in Section 10.1 does not allow retailers to change billing cycles without the customer's explicit informed consent (EIC).

  Retailers are arguing that without a matching change to their frequency of billing of customers, distributor monthly billing will leave them financially short because of the mismatch in outgoing cash flow and revenue.

  Hence Section 10.1 appears to be a significant barrier to the achieving of the desired outcome of monthly billing. The obtaining of EIC would be a major effort for retailers and is very unlikely[7] to achieve the 100% (or close to 100%) take-up by customers which would presumably be the condition of the retailers accepting monthly network billing.

In the Paper the Commission's stated understanding is that retailers would suffer a significant adverse cash flow impact if they were forced to pay monthly network bills whilst only receiving customer revenue 3 monthly. SP AusNet have not seen the basis of this assertion by the Retailers that this would result in major unrecovered costs. Conceptually apart from:

- a relatively minor one off cost associated with the change of billing frequency for customers who have had a Smart meter exchange and transferred from three monthly to monthly billing[8], and
- any relatively insignificant imbalances in the total consumption of a third of the customer for three months compared total consumption with all customers for one month,

there would appear to be no ongoing adverse impacts on the retailers cash flow. The distributors are moving, for those customers with Smart meters, from billing monthly for a third of these customers for three months of their consumption, to billing all customers for one months consumption. The retailers' cash flow to the distributor should not substantially change.

In recent considerations in the AMI Industry Steering Committee (ISC) of a change request related to retailer concerns regarding changes to billing frequency, the limited number of retailers opposed to a change failed to provide details of costs which could convince the ISC of the worth of their change request.

As is recognised in the Paper this concern in regard to monthly billing has the affect of tying the network billing frequency decision to the consideration of the customer billing frequency as discussed in Section 3.2.2 p17 of the Paper.

Our understanding is that the Commission's suggested approach is to:

- change the default UoSA to remove the current restriction on read frequency change, at least for AMI meters, and hence clear the path for the distributors to move to monthly billing without additional retailer contract changes
- leave the issue of how the retailers' alleged cash flow issues are overcome in the period between the go live of the distributors AMI meters on monthly billing cycles, and the date of the change of the retailers customer billing cycles to monthly, to

[7] This is the SP AusNet assessment based on the natural reluctance for people to accept change and to rather opt for the status quo. It would be interesting to get the retailers' and customer groups/ view on this likelihood.

[8] As meters are progressively exchanged and move to monthly network billing there will be a two month period of transition where cash outflows for the period will be delayed compared with revenue. If the transition was to monthly network billing without changes to the payment regime the retailer would have this relatively minor cash flow cost; if the proposed changes to the payment regime were made the distributor would have this cash flow cost.

commercial negotiations between each distributor and the retailers on their network.[9] Conceptually these negotiations would be based on achieving a neutral cost outcome for retailers by agreements with respect to delaying payment on components of the distributors' monthly bills.

There appears to be a body of opinion, which is implied in the Commissions wording within the Issue for Comment box in Section 3.4 of the Paper, that that this would require an arrangement whereby retailers for Smart meters would pay each month only those monthly bills for the specific customers for which revenue would have been gained under the current quarterly bill regime. This will each month leave unpaid, distributor presented network bills for an aggregated total of one month's consumption by that retailer's customers on the network.10

This "solution" would create a sizable ongoing level of outstanding debt in SP AusNet's 30 and 60 days aged debt categories which does not currently exist.

As a publicly listed company, this would have the following flow-on effects:

- the large increase in aged debt would be viewed unfavourably by rating agencies.
- our debtor turnover ratio would decrease which would also send negative signals to the market and consequently adversely affect the share price.
- similarly banks would examine our debt funding levels and are likely to adjust the rate at which we are able to borrow funds and hence our cost of funding debt would increase.
- by the end of 2011 when over 40% of SP AusNet's meters would be Smart meters the increase in aged debt would be over $10 million ongoing and increasing as further meters are exchanged.
- SP AusNet covers risk of retailer failure by taking out insurance for the retailer debt. The cost of this insurance is based on the 10 day payment terms in the UoSA. Any extension of this payment period would impact on the cost of this insurance.

The impact of these adverse debt situations is difficult to predict and would be impacted by other market conditions and financial changes over the period. However if there was a resultant change in interest rate of 0.25% this would produce extra debt cost for SP AusNet of $5 million; a 1 cent reduction in the Company's share value would reduce the value of SP AusNet by over $25 million.

These changes in interest rate and share value are assessed to be within the reasonable range of potential impacts of the aged debt increase and would be significant financial impacts on SP AusNet.

SP AusNet consider that any financial outcome which resulted in such a dramatic change in SP AusNet's aged debt levels would be an unacceptable impost on the distributor.

SP AusNet capability and suggested approach:

[9] In the Paper the Commission has suggested that the period where this Distributor support of customer three monthly billing would continue "until 1 January 2012 (or some other agreed future date)". It is unclear what this suggested date of 1 January 2012 was based. As we have stated, above the retailer costs and the need for the agreement would presumably apply until all or a majority of customers on AMI meters had monthly retailer bills. The date therefore would be directly related to the outcome of the Commission's decision on the retailer billing frequency issues raised in Section 3.2.2 of the Report. If the outcome is not a clear "mandate monthly billing" decision the agreement could continue for an extended period. Even if the decision is made, it is not clear that the effective date would be before 1 January 2012.

[10] This month of consumption would be made up of two months consumption for a group of customers representing a third of the customers on the network and one month of consumption for another group of a third.

The situation for SP AusNet is that whilst our new systems can handle quarterly billing, there are other assumptions that have been made in the design which are based on the AMI Process Model approach of AMI meters being billing monthly. This design is now largely locked in, and being progressively built and tested, and hence there would be costs, and functionality and timing risks, in making changes now. Current planning is for these systems to be accredited as part of Data and Measurement Solutions service provider accreditation in late November this year, and for all SP AusNet's rolled out AMI meters to be operational in these systems late in 2010 or early in 2011.

By July when the Commission's decision on the issues in the Paper are handed down it will not be possible to change those aspects of the system designs based on monthly billing without delays to the transitioning of meters to interval data. Such a delay would:

- be inconsistent with the Government obligation imposed through the OIC,
- would add significant costs to the SP AusNet AMI project by requiring a reasonable portion of our AMI project personnel to remain to complete build and testing, and
- delay SP AusNet's ability to begin closing down manual read routes and hence begin reducing meter reading costs which are a significant component of the benefits in the CBA which lead to a decision for the meter rollout to be accelerated and include remote re/de-energisation capability.

The ideal approach, if there clearly are ongoing costs to retailers of their customer revenue cash in-flow and their network billing cash out-flow coming from different customers/connection points, would be to rapidly mandate a change to the customer billing cycle to monthly to realign these two cash flows. SP AusNet have made comments on the customer billing cycle under Section 3.2.2 above regarding this approach. If this was done before the end of 2010 then, given the SP AusNet meter transitioning program as outlined above, the retailers would not be exposed to their assessed cash flow costs for exchanged meters on the SP AusNet network. Further, we understand that two other distributors are working on a similar meter transitioning program timetable for their meters and hence a late 2010 change to Retailer billing cycles for Smart meter customers would also limit the impact with respect to customers on their networks.[11]

Even if the decision could not be made to exactly meet these programs, an early Commission decision with implementation early in 2011 would minimise the potential financial impact and enable a less severe approach to be arranged, rather than the proposed relatively long term change of billing arrangements.

11 As the Paper mentions, we understand that the other two distributors have also built systems for AMI which cannot handle other than monthly billing. However these systems are to be in service shortly and these distributors hence have an immediate need for contractual change with each of their retailers despite the issues involved.

OTHER ISSUES (Ref 4)

Comments are invited on any matters which are not addressed elsewhere in this paper but which interested parties consider require attention now, or in the next stage of the review. (Ref: Page 33)

SP AusNet have no further comments.