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Contact Jonathan Hopson

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30 January 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

via email

Dear Anna,

IPART's submission to AEMC's draft report on its review of the regulatory framework for metering services

Thank you for the opportunity to provide a submission to the Australian Energy Market Commission's (AEMC) review of the regulatory framework for metering services. IPART notes from AEMC's review that the Commission recommends a 100% uptake of smart meters by 2030 in National Electricity Market (NEM) jurisdictions.¹

IPART's role makes us well placed to make a submission to the AEMC's Draft Report.² We are the safety and reliability regulator for NSW electricity networks and we also monitor the effectiveness of competition in the retail electricity market.

We note that one of the key drivers for this recommendation is "improving safety outcomes – such as detection of neutral integrity failure, which can cause electrocution and 'tingles', and hot joints, which can cause fires".³ We find that neutral integrity failure and hot joints can arise through the deterioration of connections (such as through corrosion) which are often not visually observable. We understand that, where smart meters have been used for this purpose in other jurisdictions, they have been effective in identifying such faults and, in doing so, mitigating safety risks. We support the AEMC's aim to improve safety outcomes as detailed in the Draft Report. However, we encourage the AEMC to review data on the number and nature of resultant incidents as well as the effectiveness of smart meters in preventing these incidents. Given the importance of safety, we recommend the AEMC consider expediting the proposed schedule.

¹ Draft Report, p ii.

² AEMC, *Review of the regulatory framework for metering services*, Draft Report, 3 November 2022.

³ Draft Report, p ii.

The AEMC are also consulting on the tariff assignment policy arrangements under accelerated smart meter deployment. As noted by the AEMC, smart meters enable networks and retailers to charge cost-reflective tariffs. IPART supports tariff structures that provide customers with effective and well-understood price signals about when to use electricity. If customers are able to respond to these signals and shift their usage to times where it is less costly, then the existing assets could be used more efficiently and the overall costs of providing electricity would fall. This would mean that bills for all customers would be lower than they otherwise would be without cost-reflective pricing.

To ensure that these benefits are realised from this important reform, it is crucial that there is public support for smart meters. Therefore, "no-regrets" regulatory safeguards should be put in place to protect against possible poor consumer outcomes that could quickly undermine the roll-out, such as:

- **typical customers** paying more for electricity as a result of having a smart meter
- customers not being able to anticipate how their consumption is likely to affect their bills due to tariff complexity
- customers not receiving information in advance about the impacts of changes to their metering.

The AEMC states that in most circumstances, a customer's monthly bill on cost-reflective pricing would show unrealised savings compared to on a flat tariff.⁴ However, in our most recent energy market monitoring review, we found that in 2021-22, a typical customer on a time-of-use tariff would pay more than customers on a flat-tariff in all NSW networks.⁵ This in part reflected significantly higher daily charges for time-of-use tariffs.⁶ This means that customers with low consumption levels were significantly worse off on a time-of-use tariff compared to a flat tariff.

IPART is receiving complaints from customers about this issue. There are likely to be many more frustrated customers that who have not contacted IPART.

In many circumstances customer engagement would result in tariffs that provide value to customers. However, in this instance, we consider a regulatory solution is required. There is an immediate problem that typical customers have been paying more on mandatory unwelcome tariffs.

IPART considers that DNSPs should be prevented from setting cost-reflective tariffs that would result in a higher bill compared to flat-rate tariffs for **typical** customers (i.e. for a customer where their proportion of electricity consumed in each half hour is equal to the proportions using the [AER's daily usage profiles for flexible tariffs](#)⁷). This should be tested at various overall consumption levels. As a result of this restriction, we would expect that DNSPs would no longer set higher daily supply charges for customers on cost-reflective tariffs. However, we would expect that a customer with higher than typical peak usage could pay more on a cost-reflective tariff compared to a flat-rate tariff, reflecting the higher costs they impose on the network.

⁴ AEMC, *Review of the regulatory framework for metering services*, Draft Report, 3 November 2022, p 95.

⁵ IPART, *Monitoring NSW energy retail markets 2021-22 Final Report*, November 2022, pp 82 - 85.

⁶ For example, see Ausgrid, *Network price list 2021-2022*.

⁷ In accordance with s 16(1)(a)(ii) of the Competition and Consumer (Industry Code—Electricity Retail) Regulations, the AER determines the timing or pattern of the supply of electricity in specified distribution regions to small customers: Using the AER's consumption profiles, the proportion of energy consumed in each half hour is calculated by dividing the usage in each half hour by the total usage across the day. AER, *Default market offer - Price determination 2020-21 final determination - Residential usage profiles - 30 April 2020*.

We agree with the AEMC that allowing customers to opt-out of cost reflective tariffs may better promote customer choice and trust – and puts the onus on the market bodies and industry to demonstrate the benefits to customers of new and innovative access and pricing options. It could provide stronger incentives for DNSPs to design cost-reflective tariffs that create customer value, which could also encourage customers to voluntarily request smart meters, increasing the pace of the rollout.

We understand that allowing customers to opt-out of cost-reflective pricing would have implications for how DNSP's recover their revenue requirement (for example, as a result of high off-peak users opting into time-of-use tariffs, and high peak users opting out). However, it is also clear that customer goodwill would further the smart meter rollout and tariff reform in the longer term.

Similarly, innovative pricing options should be able to understood by all customers. IPART has not conducted analysis on customers on demand tariffs because there is not sufficient information to enable us to easily and accurately calculate bills. Customers may also have similar difficulties understanding demand tariffs. This could also undermine the rollout of smart meters, and the effectiveness of any intended price signals.

We note that the Commission is proposing to require retailers to provide a range of information to customers in connection to the deployment of smart meters. This includes any changes to the consumer's retail contract resulting from the meter installation, including tariff changes (if applicable). At a minimum, we recommend removing the exception in clause 46(4C) of the National Energy Retail Rules for the retailer to provide advance notice to the customer of any variation to the tariffs, as a result of a tariff reassignment by the distributor. This would help ensure that customers are informed of changes to their retail tariffs before they occur.

IPART's contact officers for this submission are Jonathan Hopson, Director, Regulation & Compliance, contactable on (02) 9019 1915 and Jessica Robinson, Director, Pricing & Policy, contactable on (02) 9290 8405.

Yours sincerely,

30/01/2023



Signed by: Carmel Donnelly

Carmel Donnelly PSM
Chair