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Dear Mr Lipman

We welcome the opportunity to provide comment on the NSW Smart Meter Taskforce Discussion Paper.

In recent years Australia has experienced declining utilisation of its energy infrastructure. This is driven by the growth in peak demand outpacing the growth in underlying energy consumption. Expenditure is being incurred to provide additional generation and network capacity, with this capacity being used for only a fraction of the time. This additional expenditure is reflected in generation and network prices, and ultimately in electricity bills for customers.

There are opportunities for improved utilisation of energy infrastructure including minimising peak demand through cost effective deployment of smart meters. We support the key principles outlined by the Task Force to guide the Government's decision-making on smart meter options.

In particular we recommend that:

- ▼ Any deployment of smart meters needs to be carefully guided by the net benefits it delivers to the community
- ▼ A customer initiated take up of smart meters is likely to be more effective in targeting those customers with the greatest willingness or ability to shift their demand
- ▼ The removal of retail price regulation is not a prerequisite for the take up of smart meters and introduction of time of use pricing
- ▼ Improving the productivity of the energy sector requires a range of other supporting measures.

The following section summarises the key points we have previously made on this issue.

Any deployment of smart meters needs to be carefully guided by the net benefits it delivers to the community.

The current approach in NSW to deploying time-of-use and/or smart meters and time based pricing is unlikely to be maximising the net benefits to the community. Currently NSW distributors chose their own deployment strategies, with Ausgrid imposing a mandatory roll-out to specific customers. Meters form part of the regulatory asset base of the distributors, such that the costs of the meters and installation are recovered from all electricity customers through higher network prices.¹ Under the current NER the customer base will pay for the meter replacement costs regardless of the benefits that they deliver in terms of reduced network expenditure.² As such there is little financial risk to the network businesses. The Productivity Commission states that Ausgrid's roll-out of time of use meters has not achieved major network efficiencies.³

Given the significant costs in deploying smart meters it is important that any approach to addressing peak demand is guided by the net benefits it delivers to the community.

A customer initiated take up of time-of-use and/or smart-meters is likely to be more effective in targeting those customers with the greatest willingness or ability to shift their demand

We support the take up of smart meters through a competitive market and at the discretion of the customer or its retailer. A market led 'opt-in' approach which incentivises retailers to offer customers products that that best suit customer needs is more likely to target those customers with the greatest willingness or ability to shift their demand. It is also more likely to encourage innovative ways of 'paying for the meters' with a sharing of benefits between customers and retailers. It is likely that individual customers, with retailer support, will be in a better position to gauge their ability to respond to price signals than government or the distributors.

Importantly, it is not necessary for every customer to have a smart meter and be charged time of use pricing to obtain net benefits from demand side management. As the Productivity Commission notes, extending time of use or critical peak pricing to large industrial and commercial users may provide a relatively low cost and more rapid reduction in critical peak periods.⁴ Further, as customers with the ability to shift their demand take up

¹ The experience in Victorian may represent an example whereby productivity has declined as a result of the Government mandated roll out of time-of-use meters given that the costs have been incurred (in terms of the costs of the meters and installation) yet the benefits in the form of reduced network expenditure are still to be realised.

² Under the current NER, the distributors would fund any expenditure greater than the regulated allowances during the regulatory period but earn a return on and of capital from the beginning of the next regulatory period until the meter is fully depreciated, regardless of the efficiency of that expenditure.

³ Productivity Commission. Electricity Network Regulatory Frameworks - Overview, 2012, p14.

⁴ Productivity Commission. Electricity Network Regulatory Frameworks - Overview 2012, p11.

smart meters, those that are left with 'standard meters' may face more cost reflective prices.⁵ This should provide further incentives for these remaining customers to consider the take-up of a smart meter. Retailers may also be in a position to manage the demand of their customer base through programs targeted at individual customers or groups of customers.

The removal of retail price regulation is not a prerequisite for the take up of smart meters and introduction of time of use pricing

A significant number of regulated retail customers are charged time of use based pricing in NSW, particularly in the Ausgrid area. IPART approved the development of time of use regulated retail prices following changes to network pricing structures, including time of use based network pricing. This was to ensure that Standard Retailers were not exposed to the risk of changes to underlying network prices. We consider the competitive market to be best placed to provide customers with innovative pricing products that best suit their needs. However while price regulation remains we will continue to ensure that our regulatory framework manages changes to underlying network prices faced by Standard Retailers.

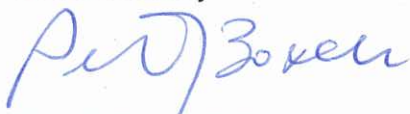
Improving the productivity of the energy sector requires a range of other supporting measures

We consider that there is a range of network-related productivity improvements available in the energy sector. In addition to encouraging cost effective take up of smart metering and other demand management tools, we have recommended measures be taken to:

- ▼ Change the economic regulation of network businesses, including the appeals mechanism available to network businesses;
- ▼ Strengthen the governance and supervision arrangements of State-owned corporations;
- ▼ Ensure network reliability standards in NSW reflect what customers value and are willing to pay for;
- ▼ Improve the arrangements for setting annual network prices under the National Electricity Rules, to allow network prices to be set earlier and with greater consultation with customers and retailers. The AEMC is currently considering IPART's proposed change to the NER.

If you have any questions, please contact Anna Brakey on 02 9290 8438 or Alexis van der Weyden on 02 9290 8460.

Yours sincerely



Peter J. Boxall, AO
Chairman

⁵ That is, the Net System Load Profile (NSLP) on which customers on 'standard meters' are settled with the AEMO, may become increasingly peaky as increasing numbers of customers with less peaky profiles take up smart meters. The NSLP is calculated by deducting the demand from interval/smart meters off the total system load.