

Energy and Water Ombudsman (Victoria) Limited

ABN 57 070 516 175

19 June 2008

Mr Craig Madden
Regulatory Analyst
AMI Review
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

By email: amireview@esc.vic.gov.au

Dear Mr Madden

Re: Interval Meter Reassignment Requirements: Consultation Paper (May 2008)

Thank you for the opportunity to comment on the Essential Services Commission's (ESC's) *Interval Meter Reassignment Requirements: Consultation Paper* (the 'Consultation Paper').

The Energy and Water Ombudsman (Victoria) (EWOV) has concerns about the potential of the reassignment requirements to lead to complaints to distributors, retailers and EWOV. This potential appears to be large. There is no evidence that customers have an understanding of the relative roles of distributors and retailers, or of the relationship between distribution network tariffs and retail tariffs. Indeed, EWOV would be surprised if even 10% of small customers understood that there was such a thing as a distribution tariff. Therefore the bare bones information requirements put forward in the Consultation Paper (at page 9) are going to be very confusing unless other more informative and explanatory material is available.

EWOV will comment on the following aspects of the Consultation Paper in this submission:

- the meaning of 'time of use' tariffs
- the information that will be available to customers on the basis of which they can make choices or at least understand what is happening to the electricity charges they pay
- the relationship between distribution and retail tariffs and what this means for customers and the potential for complaints, and
- the details of the reassignment requirements.

Meaning of time of use tariffs

The Consultation Paper also does not define time of use tariffs and this may prove to be troublesome in the future if distributors have a different idea of the kinds of tariffs that fall into this category than does the ESC.

There is probably a general understanding of what a time of use tariff is, in the sense that it is a tariff that charges different amounts according to the time of day, but there are a number of variants on time of use tariffs and it is not clear whether the distributors' power to reassign network tariffs will include these. For example,

- the Consultation Paper refers to Critical Peak Pricing on page 4 in a way that differentiates it from time of use tariffs, but without a clear definition of time of use tariffs it may be possible for distributors to assign tariffs that include Critical Peak Pricing.
- Is the ESC assuming that a time of use tariff just has peak and off-peak or could it include shoulder tariffs as well?

EWOV believes that it is important that there is a shared understanding of what a time of use tariff is across regulators, industry and other stakeholders since all may be providing information to consumers about these matters.

Information about interval meters and time of use tariffs

EWOV notes that the ESC is operating under considerable constraints in the formulation of these requirements. The management of the Advanced Metering Infrastructure (AMI) rollout has moved from Government to industry and the ESC does not control what other communications about the rollout will be made to electricity customers. For example, on page 5 of the Consultation Paper, the following sentence appears:

The reassignment requirements that are the subject of this paper assume that the Victorian Government and industry will provide customers with relevant information about interval meters, AMI and time of use tariffs prior to or at a similar time to the distributors providing notification of tariff reassignment to customers.

EWOV understands this position but is concerned by the assumption. The Consultation Paper would have been strengthened by some information on the current status of the work of the AMI Communications Working Party.

This point about the information to be available to customers is vital because without other explanatory material about interval meters and time of use tariffs, the information coming from distributors to customers will be very confusing, partly because of the relationship between distribution and retail tariffs, discussed in the next section.

The relationship between distribution and retail tariffs

EWOV notes that the Consultation Paper asks (at page 9) whether it is appropriate to include a requirement that retailer and distributor communications to each 'end customer' are coordinated, given the impact on existing customer contracts. EWOV acknowledges that this suggestion is attempting to deal with the problem of the potential confusion caused by information about distribution tariff reassignment but believes that this suggestion is based on an assumption that a reassignment to a distribution time of use tariff will mean that a customer is on a retail time of use tariff. It seems to EWOV that there are two ways in which this might not be the outcome:

- the retailer may not respond to the distribution tariff with a corresponding retail one
- the customer may not choose a time of use tariff even where their retailer is offering it.

For a variety of reasons, retailers may not introduce time of use tariffs even though distribution tariffs have moved to time of use. It will be expensive for retailers to develop new billing programs and then to migrate their customers to time of use tariffs. A view held by some sections of industry is that there are not sufficient incentives for retailers to introduce cost-reflective tariffs. Furthermore, in the recent Phase 2 of the Cost-Benefit Analysis of Smart Meters undertaken for the Ministerial Council on Energy (MCE) there was no such assumption¹. Considerable effort was put into calculating the likely take-up of cost-reflective tariffs and the analysis used quite low estimates of take-up rates. This goes to the heart of the split incentive problem with any rollout of interval meters.

Even if retailers do offer time of use tariffs, they will not be in a position to compel contracted customers onto the tariffs. That may involve them in breaking contracts, leaving customers free to search out better time of use offers, or flat tariffs or whatever other innovative tariff structures retailers see fit to offer. In saying this, EWOV takes issue with this sentence from page 6 of the Consultation Paper:

...the absence of such [interval] data implies that customers will not be able to take advantage of their differing consumption levels at various times of the day to minimise their electricity costs and thereby benefit from [sic] the installation of the meter.

That implies all customers will benefit from the tariffs. While some customers clearly will benefit from retail time of use tariffs, it is by no means certain that all will. Some customers may not have the ability to shift their usage away from peak times, because of illness, age, shift work, etc. Further, the sorts of appliances the use of which can be shifted to off-peak times are dishwashers, air conditioners and clothes dryers; not all customers have these appliances. Customers with basic appliances only (lights, a refrigerator, a television, etc) stand to gain little from time of use tariffs. Furthermore, at a time when electricity prices are increasing, there is likely to be suspicion that this tariff change can really be in customers' interests. To the extent that customers can choose

¹ For example, at page 50 of *Cost Benefit Analysis of Smart Metering and Direct Load Control: Overview Report for Consultation (NERA Economic Consulting)* the assumption for take-up of time of use tariffs is 35%, and for time of use tariffs with a Critical Peak Pricing Component 7.5%. For other scenarios, the estimate was even lower.

what tariff they are on, it is unwise to assume that a network time of use tariff will mean a customer is actually being charged on a time of use basis.

If retailers do not introduce time of use tariffs or delay doing so or if some do and some don't, a requirement to coordinate communications will be ineffective. Retailers not introducing time of use tariffs will have no interest in investing in communications to customers. There is unlikely to be a uniform approach to tariffs by all electricity retailers. Therefore, EWOV believes that the effect the ESC's suggestion was designed to achieve should be achieved differently: by a requirement that a distributor cannot reassign a tariff unless the customer has first received general information about interval meters and time of use tariffs. If the ESC's assumption about other information being provided (at page 5) is correct, the inclusion of this requirement will make no practical difference. If the assumption turns out not to be correct, the requirement will prevent a deluge of costly calls to distributors, retailers and EWOV.

If there is a range of responses by retailers to distribution network time of use tariffs, the potential for confusion is even greater and EWOV anticipates it could receive cases from customers who:

- do not understand what a reassignment of a distribution network time of use tariff means for them
- wish to complain that they have been transferred to a retail time of use tariff by their current retailer
- wish to complain that they have not been given the opportunity to change to a time of use tariff by their current retailer
- do not know why the distributor (an entity of whose existence they may not have been previously aware) has changed their meter and left material they do not understand.

There is not a one-to-one relationship between distribution and retail tariffs even though it is reasonable to expect that retailers will move, over time, to time of use tariffs. Therefore, it is not a matter of merely giving customers time to prepare for the new tariffs (as stated on page 8).

The reassignment requirements

EWOV also has some comments on the proposed requirements themselves, set out on page 9 of the Consultation Paper. Firstly we note that in the *Electricity Distribution Price Review 2006-10* Volume 2 at 2.1.25 there is a provision for a distribution customer who disagrees with the reassigned distribution tariff to give written notice to the Commission and the distribution business requesting that they be reassigned again. This provision appears to apply to any distribution customer, not just those with an annual consumption of more than 20 MWh. If that is the appeal process, information about it should be provided as part of the reassignment requirements.

Secondly, the last proposed requirement is 'advice to the customer about how they can obtain more information on interval meter tariffs' (page 9). This is quite general and it is

hard to work out what it means. Does the notice just have to say you can get more advice from [x organisation], for example, the AMI Communications Working Party, or does the distributor actually have to have material on hand that gives further information? EWOV believes it should be the latter, and suggests the requirement should be reworded to say 'advice to the customer that more information on interval meter tariffs is available from the distribution business'. After all, distribution businesses, under these reassignment requirements, have the discretion to decide when they will reassign a customer's distribution tariff to a time of use one. Presumably they will only do this when it is in their interests. As the ones deriving the benefit, it is equitable that they should have this more general requirement placed upon them.

Thirdly, EWOV is not convinced that a 30 day notice period is going to be adequate. The distributor's reassignment is just one stage in the process. The customer will need to find out whether their current retailer is going to change the retail tariff and, if so, to try to work out whether the change will be advantageous or not. The customer may also want to shop around and see what other retailers are offering. EWOV believes that 90 or at least 60 days would be more adequate for the customer to prepare for the new tariff, where that is going to be the result of the distributor's reassignment.

I trust these comments are of assistance to the AMI Review. If you require clarification or more information, please contact Stephen Gatford, Manager Public Affairs and Policy or (03) 9649 7599 or at stephen.gatford@ewov.com.au.

Yours sincerely



Fiona McLeod
Energy and Water Ombudsman (Victoria)