

*Submission to AEMC Draft Rule Determination:
Expanding competition in metering and related services*

About us

The Queensland Council of Social Service (QCOSS) is Queensland's leading force for social change, working to eliminate poverty and disadvantage. With approximately 600 members, QCOSS undertakes informed advocacy and supports a strong community sector in Queensland.

QCOSS's key activities focus on providing effective policy advice, working to strengthen responsive community services and having productive partnerships with government, the private sector and the community sector. This work is done with a Queensland free of poverty and disadvantage front of mind.

We thank the Australian Energy Market Commission (AEMC) for the opportunity to provide this submission to represent the interests of low income and disadvantaged electricity consumers across Queensland.

Introduction

The AEMC has pointed out that this review is a necessary and important part of the integrated package of Power of Choice reforms aimed at improving demand side participation in energy markets. We recognise that access to advanced metering is necessary to facilitate the uptake of cost reflective tariffs, and that opening up metering services to greater competition is intended to allow this to happen at lower cost to consumers.

While QCOSS broadly supports this policy intent, we have a number of concerns about the practical implications of the rule change for Queensland consumers. We understand the success of many of the Power of Choice reforms relies on positive consumer engagement and active demand side participation. We consider there are some areas where the Rule Change deviates significantly from the direction provided in the AEMC's Power of Choice report published in November 2012, and where consumers are at risk of being left behind.

While the AEMC has provided a high level overview of the consumer benefits, we feel that there is additional scope for the AEMC to interpret and present the likely consumer impacts of the Rule Change in a more meaningful way that considers the cost and benefits for different consumers in a practical sense. In this submission we have outlined some critical questions about how the Rule Change will work in practice, how the customer outcomes will be protected and monitored, and highlighted areas where we believe consumer impacts need to be more fully investigated and considered before the AEMC's Final Decision.

Transparency on the costs and benefits for consumers

While this rule change may have the potential to bring significant benefits for consumers, these benefits can only be realised if the new arrangements result in effective competition that delivers real cost savings to consumers. QCOSS considers there is insufficient information about the costs that consumers will pay for these benefits, either individually or across the customer base. Without more transparent information about the costs and benefits, it is very difficult to understand the tangible implications of the proposed rule change for Queensland consumers.

Under the proposed rule change, we understand it will be a business decision for the retailer how it will pass on the costs of the advanced meter and its installation to consumers. In order for consumers to make informed decisions that drive effective competition, it will be important that all consumers are aware of the immediate, ongoing and indirect cost implications of their decisions. We therefore expect the AEMC to provide some indication of the costs expected to be borne by consumers before making its Final Decision, and ensure there are mechanisms in place to capture and monitor information on the costs and outcomes of the Rule Change on consumers.

Specifically, there must be more transparency, both in the AEMC's Final Decision and in the information provided to consumers, about what the potential costs for consumers are in terms of:

- *Upfront costs:* It is not clear what magnitude of upfront costs might be charged by retailers to install an advanced meter and how this might compare with the upfront costs charged by distributors. Where costs are imposed upfront, it is likely to create a barrier to uptake by low income households. It also has the potential to cause confusion and consumer backlash, as consumers are not familiar with paying upfront costs directly for metering.
- *Ongoing costs:* The AEMC states that “*metering charges for consumers that retain an accumulation meter may increase as more advanced meters are deployed*”¹. QCOSS assumes this would be where the operational costs of reading meters increases due to reduced economies of scale, and where this cost increase outweighs the savings from the fall in the cost of the asset base. It is not clear what the possible magnitude of these metering charge increases might be. It is important for the AEMC to more fully consider the ongoing costs likely to be faced by all customers, including those who adopt an advanced meter and those who do not. QCOSS is concerned where vulnerable customers who may be excluded (for whatever reason) from taking up an advanced meter may be further disadvantaged as their costs increase as the customer base reduces over time.
- *Exit costs:* While the AEMC has stated they do not expect any exit fees to be imposed on an initial move to an advanced meter, presumably retailers may recoup metering charges through an exit fee to the consumer when they switch retailers or close their account. In this instance, it is likely that tenants who do not have secure or long term tenure at their property would be disproportionately affected.

¹ AEMC (2015), Draft Rule Determination, National Electricity Amendment (Expanding competition in metering and related services) Rule 2015, Executive Summary, Page Viii, Footnote 6.

- *Indirect costs:* QCOSS is aware that electrical problems (such as exposed wiring) are often identified during work on replacing and upgrading electricity meters. This is particularly problematic in the case of tenanted properties, where it is the landlord's responsibility to ensure that the property is electrically safe. There are cost implications for landlords in this case, and we consider there may be practical barriers imposed on tenants in adopting advanced meters should this be the case. We understand that in the Victorian smart meter rollout, these indirect costs were initially covered by the distributors and that they were allowed to recover some of these costs in network prices. We would like some clarity about the approach to these issues under the AEMC's proposed approach. These indirect costs could create significant barriers for low-income tenants to access the benefits of advanced meters, and create flow on costs and tenancy disputes.

The competitive market being proposed by the AEMC is largely untested in the Australian context. Given the uncertainty about how the competitive market will develop and operate, and the extremely low level of awareness across consumers that this significant change is coming, we believe it is critical that there is public monitoring of consumer outcomes arising from this Rule Change.

While we acknowledge that the AEMC have proposed to undertake a review of the arrangements after three years, we consider that there is a more urgent need to track the outcomes and impacts on consumers from the outset. At a minimum, we would like to see published retailer data about the costs faced by consumers, tracking of deployment of meters (number and geographic spread) and the proportion of advanced meter customers on flat tariffs compared to dynamic tariffs.

Opt-out approach

The AEMC's Power of Choice final report states: *"Under our proposed model, the onus will be on the retailer or DSP service provider to elicit consumer consent to a smart meter through offering appropriate retail pricing offers and value added services. This approach will support efficient markets as it promotes innovation, greater DSP options for consumers and efficiency in metering costs."*² The AEMC's Rule Change also states that: *"investment in metering services, driven by consumers choosing products and services they value at a price they are willing to pay, can be expected to result in efficient investment"*.³

We consider the opt-out approach proposed in the AEMC's Rule Change to be a significant departure from both these statements. The opt-out approach removes the onus from the retailer to elicit consumer consent and means investment is not being driven by consumers making an active choice. As such, we question how the AEMC's Rule Change will support an efficient competitive market.

Under the AEMC's proposal QCOSS considers that the majority of consumers are likely to adopt a new meter either: (a) by consenting as part of a proactive marketing of bundled offers by a retailer; or (b) by default by not responding to an opt-out notification from their retailer. We do not consider the latter to constitute explicit informed consent. We understand from the AEMC's consumer workshop on this Rule Change that the decision to require

² AEMC (2012), Final Report, Power of Choice Review, Page 68.

³ AEMC (2015), Draft Rule Determination, National Electricity Amendment (Expanding competition in metering and related services) Rule 2015, Page 20.

consumers to opt-out is because most consumers will not engage or respond to requests to opt-out, therefore speeding up the deployment of advanced meters. While we appreciate this intent, it is important to separate the provision of a *meter* under an opt-out approach, compared to signing a customer up to a *dynamic tariff* or imposing some other *cost* under an opt-out approach.

QCOSS considers that consumers who receive a new meter under the proposed 'opt-out' arrangement should not be faced with any increased charges as a result of a change in their tariff, nor should they pay any upfront costs for an advanced meter or its installation or have any future exit fees imposed as a result of receiving the new meter. In this instance, the decision to install a new meter has been made by the retailer who considers that there is a sufficient business case to do so, and therefore if there is a cost involved this should be factored into the retailer's business case in deciding whether to provide the meter or not.

QCOSS considers demand tariffs will be a significant change for consumers and will require significant investment in consumer education. Any attempts to shift consumers onto these arrangements without their explicit informed consent would not only be unfair for individual consumers, but are also likely to create consumer backlash and have a negative impact on the objectives of the reform to foster positive consumer engagement. We are also concerned for low income consumers with low literacy or English language barriers who are unlikely to understand the notification and would be more likely to end up with an unexpected additional cost or tariff arrangement under an opt-out approach.

We also note the AEMC states that: *"The way in which consumers engage and participate in the electricity market is a key factor in realising the benefits and full potential of efficient DSP. Effective communication and education strategies will be needed to build consumer confidence ... Consumers must be aware of what the reforms and DSP options mean to them and the opportunities available."*⁴ QCOSS agrees that consumer education is critical. It is our view that the opt-out approach will allow meters (and potentially dynamic tariffs and any associated costs that come with them) to be adopted without any customer education occurring. We consider that the opt-out model is effectively being proposed as a 'way around' having to inform and educate consumers of the benefits of advanced meters. Given consumer education on a range of energy reforms has been minimal in many jurisdictions to date, it is necessary to ensure that the Rule Change provides an incentive for the market to bring consumers along through education and information, rather than allowing changes to be imposed on consumers without their consent or understanding.

Lack of retail competition in regional Queensland

Currently, there is not effective retail competition in regional Queensland. While we note this may change in the future, even if retail competition is introduced to regional Queensland before this rule change comes into effect, it will be relatively new for consumers and it may be several years before competition is considered to be effective. Challenges in informing and educating consumers are also exacerbated in regional areas due to remoteness. In its Regulatory Proposal to the Australian Energy Regulator (AER)⁵, Ergon Energy has proposed a large roll out in new meters over the period 2015-2020. Ergon Energy is forecasting about 377,698 new meters (about 30 per cent of the stock of meters at the end

⁴ AEMC (2012), Final Report, Power of Choice Review, List of Final Recommendations, Page iii.

⁵ Ergon Energy (2014), Regulatory Proposal. Alternative Control Services, Alternative Metering Services. www.ergon.com.au/network/network-management/future-investment/regulatory-proposal-document-library

of 2015-16) over the next five years for replacement and new connections. It is likely that Ergon Energy (in its capacity as the incumbent retailer) will benefit significantly from advanced meters, in particular the cost saving from being able to remotely read and connect/disconnect meters. However, without competitive pressure or regulation of these charges, there is no protection for consumers to ensure these costs savings are passed on.

We recommend the AEMC provide an indication of how the proposal Rule Change will work in areas such as regional Queensland where retail competition is not effective, and outline an alternative approach where the competitive market is unlikely to deliver positive consumer outcomes. QCOSS suggests the AER could have a role in regulating metering costs in regional Queensland. At a minimum, QCOSS recommends the Rule Change require the AER to take explicit account of the distributors' capital and operational expenses associated with installing advanced meters as part of the revenue determination process. This does not appear to be happening in the current revenue determination processes.

Load control

There is widespread uptake of controlled load systems in Queensland for hot water systems and pool filtration systems. In Queensland, these controlled load tariffs have high uptake, and are largely viewed by consumers as a measure to improve affordability. QCOSS is aware that uptake of controlled load tariffs would be even higher if tenants and residents of social housing were able to more readily access these tariffs. This type of set-and-forget demand management technology is hugely beneficial for consumers as well as distributors.

It is understood that load control is not part of the minimum specifications for advanced meters, and is considered to be an additional feature which "*parties will be able to negotiate for these other services that are not included in the minimum services to be included in meters*".⁶ It is unclear to QCOSS whether the consumer will be responsible for negotiating with the retailer to adopt an advanced meter with load control capabilities or maintain their load control device, or whether this negotiation will take place between the retailer and distributor.

It is not clear how the most efficient outcomes would be achieved here. We consider it likely that distributors will seek to maintain their existing load control devices which may result in services being duplicated. It would not be efficient for consumers to pay multiple metering charges if advanced meters are capable of providing all services. Given the significant uptake of load control tariffs and arrangements in Queensland, this is a critical issue that should be clarified as it has significant affordability implications for a majority of Queenslanders.

Metering deployment by retailers

QCOSS understands that it is likely that retailers will establish and use their own 'ring-fenced' metering coordinators, and we are concerned about the potential for these arrangements to result in anti-competitive practices. QCOSS would recommend a light handed form of regulation to ensure public monitoring of these arrangements in the first years of the rule change. This would strengthen the review proposed after three years. We have outlined some of our concerns below.

⁶ AEMC (2015), Draft Rule Determination, National Electricity Amendment (Expanding competition in metering and related services) Rule 2015, Executive Summary Page vi.

Meter churn

QCOSS considers that there are significant first mover advantages for retailers to deploy advanced meters so they can retain customers and earn an ongoing income through their metering coordinator. We note the AEMC “...anticipates that under the draft rule, metering installations will only be replaced where efficient to do so, such as at the end of their useful life or where a new meter can support additional services that consumers wish to take up. Unnecessary meter churn is unlikely to occur as competitive pressures are likely to drive retailers to seek efficient, lower cost outcomes to attract and retain customers”.⁷ It is not clear to QCOSS how or why retailers would take into consideration the life of the existing distributor-owned meters before deploying a new meter. Also, where meters are to be deployed on an opt-out basis, it is not consumer demand for additional services that is driving uptake, as it is likely most customers will receive a new meter by default because they are disengaged from their service provision. It appears there are no protections to prevent meter churn or to ensure meters are provided only where it is efficient to do so.

Barriers to switching

We consider there is a risk that anti-competitive practices may result in consumers who have been provided with an advanced meter being prevented from switching retailers. It is placing a considerable amount of faith in retailers to assume that their metering coordinator companies will provide access under favourable terms and conditions to new retailers should the consumer wish to change retailer. This may limit the attractiveness of offers that are made to consumers who already have an advanced meter. It may also result in meter-churn, where instead of using the existing advanced meter, the new retailer replaces it with their own advanced meter. This would be inefficient and the cost of this churn would be ultimately borne by consumers, either directly or indirectly. QCOSS considers that the Rule Change must provide stronger protections to ensure retail competition is not diminished.

Limited product offerings

We note the AEMC’s assurance that “importantly the draft Rules does not introduce any requirement for consumers with an advanced meter to take up a different tariff. Consumers may choose to remain on a flat tariff where this is offered by their retailer”.⁸ QCOSS is concerned about the statement: “where this is offered by their retailer”. We are concerned how the competitive market may respond in terms of the scope of products and services offered to customers with an advanced meter. It is feasible that over time retailers may cease to offer flat tariff options to advanced meter customers, thereby forcing them onto dynamic tariff arrangements. QCOSS is concerned that the Rule Change seeks to introduce cost reflective tariffs by stealth, to consumers who are uninformed and completely unprepared for the changes in their bill that this will bring. We raise this concern not only from the perspective of an individual customer who may be made worse off, but from the perspective of the general public whose goodwill towards the energy market can be very easily and swiftly eroded.

We again highlight the AEMC’s Power of Choice report which states in relation to low-income or vulnerable consumers: “such small consumers (who have enabling metering technology) should have a flat network tariff as the default option – but have the choice to

⁷ IBID (2015), Page 20.

⁸ IBID (2015), Page II.

“opt-in” to retail tariff which includes a time varying network tariff if they prefer”.⁹ We consider this to be a different direction to the AEMC’s proposed Rule change which states: *“consumers may choose to remain on a flat tariff where this is offered by their retailer”*. We believe the choice to remain on a flat tariff should be mandatory for all consumers, but particularly low income and vulnerable consumers. While we understand there is research to suggest low-income households could benefit from dynamic tariff options, low-income households (like all households) are not homogenous and there are likely to be many who will be worse off.

Moving onto a demand tariff is a significant change for a consumer and should be done with not just *explicit informed consent* but also education to ensure they understand what they are signing up for and an understanding of how they can respond to the new price signals. Moreover, consumers should be allowed have an advanced meter without necessarily also taking on a new tariff structure. This would allow them to experience some of the benefits of having an advanced meter (which go beyond dynamic tariffs) before making an informed choice to change their pricing structure. While we understand the imperative to introduce advanced meters quickly, we believe any attempts to do so without active buy-in from consumers would be counter-productive to the objectives of demand-side reform.

We understand that the AEMC considers that retailers are likely to deploy advanced meters to customers according to geographic locations, rather than cherry picking certain customers who are valuable for them to retain. However, given the existence of significant differences in the socio-economic profiles of certain regions it is possible for metering contestability to exclude low-income customer groups. This could create a divide and have an impact on customer outcomes for low income and vulnerable customers. QCOSS recommends monitoring of the cost implications of adopting an advanced meter, compared to retaining an existing meter, as well as monitoring metering deployment by geographic location are important to understand the full implications of this Rule Change for vulnerable customers.

Consumer protections

QCOSS has two areas of concern around the adequacy of consumer protections for consumers. Firstly, we do not agree with the AEMC that *“the ability for customers to “opt out” of having their metering installations replaced under a new meter deployment”*¹⁰ constitutes explicit informed consent. As discussed earlier, while we do not necessarily take issue with an opt-out approach to deployment of the *meter*, where meters come with *different tariffs or new costs*, obtaining explicit informed consent should be essential.

Secondly, we do not agree that the Rule Change sufficiently protects consumers in relation to information provision. The AEMC states consumers’ rights are protected *“given that small customers will be notified of new meter deployments and their right to opt out of having their meter replaced as part of a new meter deployment”*.¹¹ Under draft Clause 59A, (3)(d) in the draft Rules, the retailer only has to notify the consumer of any *upfront* charges they may incur as a result of the deployment. We understand that there may be other charges imposed that would not fit this criteria and would therefore not be disclosed to the customer.

⁹ AEMC (2012), Final Report, Power of Choice Review, Page 271.

¹⁰ AEMC (2015), Draft Rule Determination, National Electricity Amendment (Expanding competition in metering and related services) Rule 2015, Page 23.

¹¹ IBID (2015), Page 23.

While we strongly disagree that consumers should be charged additional fees or charges as a result of an opt-out approach to metering deployment, should this take place it is critical that the notification provides information about *all* the relevant costs and charges (as described on earlier in this submission on page 2-3), not just those that are upfront.

We also understand that many customers will not read or respond to these notifications and so may have an advanced meter installed without any awareness of the information provided. The fact that this change could then result in an additional cost, or significant change in the way the customer is charged for electricity, is concerning. In this instance, we believe a public awareness and information campaign is essential, as well as targeted face-to-face communication to inform vulnerable consumers, such as those with language or literacy barriers, who can be hard to reach. This is described further in the next section.

Consumer awareness and education

The AEMC has expressed the importance of consumer education stating in the Draft Decision: *“The Commission agrees that communication and education is vital to support confidence in the market and consumer engagement. Governments, retailers, distribution network businesses, energy service companies and consumer groups all have a role to play in communicating the changes and their implications to consumers. A commencement date of 1 July 2017 gives these parties time to communicate the changes to consumers so that they can engage effectively when the rules commence.”*¹²

While we agree with this statement, we have concerns about effective consumer education being implemented without stronger direction from the AEMC. We believe the AEMC should develop a blueprint to outline a best-practice approach for consumer education and provide clarity on the roles and responsibilities for communication and education across the various stakeholders. As part of this, the AEMC should consider:

- The importance of trusted and independent sources of information to help consumers understand the new arrangements and their responsibilities and obligations, as well as the benefits. The introduction of metering contestability and flexible pricing adds a further layer of complexity to the market for consumers, and creates the potential for information overload and confusion regarding messaging from different retailers, metering coordinators and other stakeholders. Consumers in Queensland have not previously had to consider the capabilities of their meter or understand flexible tariffs. It is likely that the retailers will undertake their own marketing campaigns; however in the absence of an effective and independent education campaign, there is a risk that misinformation, poor behaviour or incomplete information could undermine consumer confidence in advanced meters and the success of future reforms.
- It is critical that consumers are brought on the journey, rather than have complex arrangements imposed upon them with limited or no warning. While the Rule Change does not come into effect until 2017, the issues are complex and changes could be significant for consumers. QCOSS considers a long lead time is required to ensure all consumers are educated and informed. Without a proactive campaign in advance of the changes, there is a risk that poor consumer perception will stifle progress of the reforms. This was evidenced in Victoria where consumers *“... lost confidence in advanced metering, due to poor communication about the program’s benefits and*

¹² IBID (2015), Page 312.

*poor governance around the mandated roll out that contributed to a lack of accountability*¹³.

- An inclusive and intensive education campaign is required to meet the specific needs of vulnerable and disadvantaged consumers. Ideally education and awareness for this group should involve the opportunity for face-to-face conversation by an independent and trusted third party with focus on ensuring consumer comprehension and understanding of metering benefits, new tariff options and confirm they have the ability to respond. QCOSS considers an intensive on-boarding process is essential to explain these concepts and ensure effective and appropriate education of vulnerable and disadvantaged consumers to ensure they are not worse off.

¹³ Consumer Action Law Centre (2014), –Submission to the AEMC on Expanding Competition in Metering Consultation Paper. <http://www.aemc.gov.au/getattachment/b209ae34-a252-429b-b162-f531c9641e00/Consumer-Action-Law-Centre-4-June-2014.aspx>