



AEMC



# Smart Meter Cost Recovery Review- Final Report

## Overview

### Why has the AEMC conducted the Smart Meter Cost Recovery Review?

The Ministerial Council on Energy (MCE) is undertaking work to facilitate a national roll-out of smart meters where the benefits outweigh the costs.

A consistent national framework for smart meters is being developed by the MCE to ensure the most efficient and cost effective introduction of this new technology.

To assist in the development of this national framework, the MCE requested the AEMC to undertake the Smart Meter Cost Recovery Review. The AEMC received the MCE's terms of reference for this Review on 28 November 2009.

### What are 'smart meters'?

Smart meters are electricity meters which are capable of two-way communications. When connected to a communications network they can allow 'real time' data and instructions to flow between service providers and their customers.

Smart meters can assist consumers to better manage their electricity consumption and provide a range of operational efficiencies for electricity distributors.

'Direct load control' is a related technology to smart meters, which allow third parties to remotely vary or disconnect the energy use of customers during peak load periods. Direct load control technology is often implemented with a smart meter, but may also be implemented separately.

In the AEMC's Smart Meter Cost Recovery Review, the MCE

requested the AEMC to consider both smart meters and direct load control.

### What is the Smart Meter Cost Recovery Review?

On 1 January 2010, changes to the National Electricity Law came into effect which allow energy ministers in participating jurisdictions to make a ministerial determination which requires electricity distributors to:

- Roll-out smart meters for customers in their jurisdiction; and/or
- Conduct pilots and trials of smart meters and other related technologies, including direct load control.

The framework for electricity distributors in the National Electricity Market to recover their costs is set out in Chapter 6 of the National Electricity Rules (Rules).

The purpose of the Smart Meter Cost Recovery Review was to provide advice on whether the existing framework for cost recovery in Chapter 6 of the Rules is appropriate for costs relating to smart meters and other related technology which has been installed as a result of a ministerial determination. In the review these technologies were referred to as 'mandated smart metering infrastructure'.

The Smart Meter Cost Recovery Review did not assess the impact of the roll-out or pilots of smart meters or other related technology which is installed on a commercial basis by electricity distributors, retailers or any other market participants.

### What did the MCE want us to do in relation to this review?

The MCE requested advice on a number of matters including:

### The recovery of efficient costs

- Whether the Rules would provide for the recovery of the efficient costs and the timely pass through of benefits to consumers by electricity distributors for mandated smart metering infrastructure.
- The MCE asked us to assess the adequacy of both the five yearly distribution determination process and the cost pass through provisions.

### Tariffs for smart metering infrastructure

- How the costs of mandated smart metering infrastructure should be allocated.
- This included advice on whether the charges for mandated smart metering infrastructure should be separated out from other electricity distribution charges.
- The MCE also asked for advice on whether the Rules would allow the tariff impact on customers of a mandated smart meter roll-out to be smoothed.

## Final recommendations

### What are the AEMC's final recommendations?

We found that overall the existing Rules would adequately accommodate the recovery of the efficient costs of mandated smart metering infrastructure.

However, some incremental amendments to the Rules have been proposed to:

- Provide greater regulatory certainty for stakeholders and improve the AER's application of the Chapter 6 Rules;

**We found that overall the existing Rules would adequately accommodate the recovery of the efficient costs of mandated smart metering infrastructure.**

**However, some incremental amendments to the Rules have been proposed.**

- Promote the efficient management of costs and provision of services associated with mandated smart metering infrastructure; and
- Facilitate the realisation of the potential benefits of mandated smart metering infrastructure.

### **Proposed changes to the Rules**

#### **What are the AEMC's proposed changes to the National Electricity Rules for the recovery of the efficient costs for mandated smart metering infrastructure?**

The AEMC's key proposed changes to the Rules to promote the recovery of efficient costs include:

- Requiring electricity distributors to provide annual information to the Australian Energy Regulator (AER) on the actual costs and benefits of mandated smart meter roll-outs, pilots and trials they are undertaking;
- The inclusion of a new interim determination process to require the AER to amend its distribution determination during a regulatory period if an electricity distributor is required to undertake a mandated smart meter roll-out but these costs have not been provided for in its determination; and
- Including a new revenue adjustment to ensure that electricity distributors are neutral to any differences between the forecast and actual timing of mandated smart meter roll-outs.

#### **What are the AEMC's proposed changes to the National Electricity Rules for the tariffs for mandated smart metering infrastructure?**

The AEMC's key proposed changes to the Rules relating to the tariffs for mandated smart metering infrastructure include:

- Including greater prescription on how the tariffs for smart metering services must be structured

by electricity distributors to provide for the efficient allocation of costs;

- Requiring electricity distributors to separate out the charges for some smart metering services from the general electricity distribution charge; and
- Including mechanisms for the AER to smooth the tariff impact of a mandated smart meter roll-out on consumers.

#### **Do the AEMC's recommendations apply to the Advanced Metering Infrastructure (AMI) Roll-out in Victoria?**

The only recommendation in our Final Report that applies to the AMI Roll-out in Victoria is the annual reporting requirement we have proposed for electricity distributors on the costs and benefits of mandated smart meter roll-outs, pilots and trials.

All of the other recommendations in the Final Report are not proposed to apply to the Victorian AMI Roll-out, as this Roll-out has been implemented under separate Victorian arrangements.

### **Next steps**

#### **What are the next steps for the AEMC's final recommendations?**

The MCE will consider the AEMC's Final Report and proposed changes to the Rules.

If the MCE determines that changes to the Rules should be made, the proposed Rules would then need to be considered through a standard Rule change process by the AEMC.

#### **For more information**

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