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Submitted via email: ETRConsultations@sa.gov.au

Accelerating the roll out of smart meters in South Australia

AGL Energy (AGL) welcomes the opportunity to provide feedback on the South Australian Government's (the Government) proposed options for accelerating the roll out of smart meters in South Australia, dated 25 January 2022. [redacted] AGL continues to be a strong proponent of the competitive smart meter roll out in the National Energy Customer Framework (NECF) states and the benefits that smart meters can bring to consumers.

We commend the South Australian and other jurisdictional governments for continuing to explore ways through which the installation of smart meters can be accelerated, further building on the Australian Energy Market Commission (AEMC) Review into Metering Services[1], which at this time has been postponed.

In this respect, the Government's consultation is both timely and constructive, although claims of the delayed progress of the roll out and unmet expectations that "more smart meters should have been deployed by now" are less conducive.[2] To date, such expectations have not been fully articulated by the AEMC and jurisdictional governments and AGL would welcome constructive multi-party discourse on the perceived issues affecting the smart meter roll out. However, broad statements on the speed of smart meter roll out should be substantiated with a clear long-term vision and accompanying projections of what smart meter penetration was anticipated by this time and the expected benefits.

AGL firmly believes that since competition in metering began in 2017, the smart meter roll out has progressed at a pace consistent with the digital metering reforms of ensuring consumers control or have the power to choose when they want a digital meter installed to support products or services they have elected to take up (e.g., solar, batteries, EVs). This objective was explicitly used to avoid the high upfront capital costs borne by consumers without commensurate benefits, as happened in Victoria during the mandated roll out program where Victorian electricity consumers paid an estimated $2.239 billion for metering services by 2015, including the rollout and connection of smart meters, while few benefits accrued for energy consumers.[3]

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[1] Australian Energy Market Commission, *Review of the Regulatory Framework for Metering Services, Directions Paper,* 16 September 2021.

[2] Government of South Australia, Department of Energy and Mining, *Accelerating the roll out of smart meters in South Australia*, 18 January 2022, p 5.

[3] Victorian Auditor-General's Office, *Realising the Benefits of Smart Meters*, 2015.

Notwithstanding, AGL is committed to finding effective strategies and collaborative industry solutions to increase the penetration of smart meters in South Australia and across NECF. To avoid the risk of inflating costs associated with the roll out, it is important that these strategies are compatible with retailers' existing smart meter deployment programs and do not conflict with other jurisdictional and national arrangements to accelerate the roll out of smart meters.

In response to the AEMC's Review of Metering Services, AGL provided detailed insights into the progress of the smart meter roll out since Power of Choice reforms took effect in December 2017. As one of the leading retailers in the NECF smart meter roll out, AGL put forward a number of suggestions to enhance the roll out in its response to the Directions Paper. We encourage the Department to consider AGL's submission to the AEMC as a many of the recommendations apply to the current consultation.[4] Specifically:

- That the pace of the roll out is consistent with the forces of a competitive market. Attempting to accelerate the speed of the roll out through increased regulatory intervention and without proper consideration to retailers' existing deployment programs will inevitably result in higher costs for consumers without necessarily enjoying the benefits of the digital meter.
- The speed of the smart meter roll out will naturally accelerate with the removal of barriers and disincentives (for example, the capital costs associated with removing DNSP assets, issues at the customer's site affecting the installation, mandatory tariff reallocation).
- Complexities and challenges with DNSPs' processes such as family failure notifications and a lack of meter age profiles and forward planning information from SAPN exacerbate inefficiencies in the smart meter roll out.

Of the options put forward in the consultation paper, AGL endorses Option 1 – *Smart meter requirement for controlled-load*, as the preferred method for accelerating smart meter deployment in South Australia. This approach can be synchronised with retailers' existing smart meter deployment programs while targeting the customer base that will draw an additional benefit from the smart meter installation by allowing retailers to control and optimise the CL times for its customers at scale.

Additionally, AGL welcomes the Department's proposal in relation to Option 4 – *Demand-response appliance trigger*. Although we anticipate that the annual volume of customer-initiated meter replacements for demand-response appliances is likely to be too low for this option to operate independently, we consider there is particular value for this requirement to apply to customers in South Australia and other NECF states. Akin to the customer meter replacement requirements for solar installations, we recommend that Option 4 be introduced as a jurisdictional requirement for all South Australian customers who are specifically installing a battery system at their premises, whether or not a solar system is installed at the same time.

We expand on these points below in our detailed response to the specific questions in the Consultation Paper.

[4] AGL Energy, *Submission to the Australian Energy Market Commission Review of the Regulatory Framework for Metering Services, Directions Paper*, 28 September 2021.

If you would like to discuss AGL's submission further, please do not hesitate to contact Valeriya Kalpakidis at vkalpakidis@agl.com.au.

Yours Sincerely,

Elizabeth Molyneux

General Manager, Policy and Markets Regulation

AGL Energy

Consultation Questions

Which option do you consider is likely to best achieve an accelerated roll out of smart meters and why?
AGL supports Option 1 – *Smart meter requirement for controlled-load* (CL) customers, to best achieve an accelerated roll out of smart meters. Specifically, adopting this approach will not result in a substantial diversion of time, people, and resources from existing retailer-led programs and upgrade schedules, meaning that additional costs burdens will be minimal. Further, the CL customer cohort is large enough for a stable and effective program of work over the allocated replacement period.

How could the roll out of your preferred option be made more efficient?
Subsiding the DNSP Capital Charges

The significant ongoing costs incurred by retailers through the DNSP capital charge for metering assets directly impact retailer-initiated smart meter upgrades. When a retailer installs a new digital asset as part its retailer-led program, it will incur the costs of the new meter and associated services from the Metering Coordinator while also continuing to pay the DNSP capital costs of the meter that was removed. This applies to all meters installed prior to July 2015 which do not have a critical failure and have some quality of life left. Removing or addressing the duplication of ongoing fees paid both the DNSPs and MCs as part of a meter exchange transaction can support an increase to the pace of the smart meter roll out.

AGL recommends that the Government consider options for subsidising the ongoing DNSP capital charges as part of the smart meter roll out in South Australia to retailers. This will ensure that:

- Any of the proposed options to the accelerate the roll out remain commercially viable for the retailer, which in turn means that customers do not incur unnecessarily higher costs for digital meter roll out; and
- The smart meter roll out will naturally accelerate with the removal of cost prohibitive barriers meaning that finite resources can be more effectively utilised to support the smart meter roll out.

Customer Opt-out

While AGL has not previously supported measures to remove customer opt-out rights from the smart meter roll out, we consider that given the risks posed by the operational demand conditions in South Australia, it is appropriate for the Government to address this aspect of retailer-led installations. While AGL's data shows that customer opt-outs are generally low, the Government can play a significant role in building trust with respect to smart meters by introducing jurisdictional measures to bypass the customer opt-out provisions under the National Energy Retail Rules and Law. The AEMC in its Directions Paper on Metering Service framework found that 'reducing the notice requirement could improve customer experience and roll out efficiency[5]'.

Below, we list the main customer deterrents and how they can affect customer decisioning and sentiment with respect to smart meters:

[5] AGL Energy, *Submission to the Australian Energy Market Commission Review of the Regulatory Framework for Metering Services,* p 91.

- Uncertainty about how the Time of Use (ToU) tariff will affect each customer's energy bill translates into customer reluctance. The mandatory tariff reallocation which affects all new customer connections and meter exchanges was designed to encourage more usage in the middle of the day to take advantage of surplus solar generated electricity in the grid at that time. However, the lack of interval data when upgrading from a basic to a smart meter can make it challenging, if not impossible, to predict whether customers will ultimately be better off on the new ToU tariff or whether their energy bills will increase due to consumption patterns. AGL has previously recommended that customers should be able to remain on their existing network rate structure post-meter exchange to overcome issues with tariff mapping and to promote a higher uptake of smart meters. We believe this is a dialogue that the Government can continue with retailers, AEMC, the AER and SAPN. Overcoming this disincentive for customers is critical for increasing customer acceptance and engagement with smart meter technology, facilitating a seamless customer transition, and promoting a positive customer experience.
- Customers may be aware or become aware of physical works that need to be undertaken at their premises to allow for the smart meter installation which requires time, effort, and money for the customer to rectify. A standard upgrade to the electrical sub-panel can cost the customer $700.00, while even higher expenses can be incurred for asbestos removal and other site rectification works. These issues are compounded when the customer resides in a rental property or public/government housing arrangements. Until these works are undertaken, a new meter cannot be installed. It is therefore imperative that the Government creates a mechanism to recover non-standard installation costs as part of any target-based roll out measures, such as a subsidy for retailers to cover the costs of the works as part of the retailer-initiated roll out, or a rebate directly to customers for having undertaken the rectification and/or home improvement works prior to the installation.
- Neutral sentiment from customers towards smart meter installations can still mean that customers opt-out, especially when it is a matter of convenience. We encourage the Government run an information and consumer awareness campaign to support any target-based measures and promote the benefits of embracing smart meters in South Australia.

It is important that the underlying issues affecting customer reluctance are addressed at the onset of the program, rather than waiting until the back end of the target date for action. This will mitigate the likelihood that towards the end of prescribed timeframe all of the remaining complex and problematic sites will need to be addressed in a concentrated period. This will invariably create a period of high demand, exacerbating operational pressures and costs-to-serve, while also creating the risk that the regulated target will not be met by the end of the allocated timeframe.

What data is required to support your preferred option? Are there any issues related to accessing that data?
No additional data would need to be procured by retailers to support Option 1 - *Controlled-load smart meter requirement.*

In order to make AGL's alternative preference, Option 3 - *aged-based replacement* operationally viable, SAPN (and all the DNSPs nationally) will need to make their asset management information detailing the lifespan/age profile of the meters in South Australia, be readily available to retailers. Currently, retailers have very limited visibility of the age profile of meters in South Australia and are generally unable to procure the asset management list upon request in order to undertake forecasting and planning. AGL notes that this forecasting information used to be available as part of SAPN's five-year pricing proposal that was submitted

to the AER, however, this practice has since stopped. Greater transparency, increased cooperation between parties and a nationally consistent approach to sharing the relevant data must be established and promoted in order to operationalise Option 3.

What concerns do you have about these options?

Generally, all of the proposed options have the potential to increase energy costs for consumers if the Government does not carefully consider the impact each proposal would have on aligning the upfront costs of meter replacement with consumers receiving the benefits of the new digital meter.

As most of the options put forward introduce a regulated target measure to some degree, the Government should carefully consider how these regulated targets could adversely impact energy costs for consumers in SA. The following paragraph from AGL's submission to the AEMC Review of Metering Services is particularly relevant:

> *"When considering the scope of subsequent reforms, the AEMC should be cognisant that substantive regulatory changes to the current framework will force retailers to divert scare resources in order to redesign their smart meter deployment programs while incurring avoidable costs. This will impact retailers' ability to absorb the costs associated with:*
>
> - *procuring more meters*
> - *higher fees expended on contracts with metering parties*
> - *increased planning and coordination requirements*
> - *more staff and specialised training*
> - *higher volume of payments to DNSPs for removing the physical asset*
> - *the annual meter rental (annuity) cost retailers pay to metering coordinators (MCs) which increases as the volume of smart meters increases."*
>
> *"By accelerating the roll out, the price shock customers will experience will also be accelerated. As the costs increases are cumulative, the current gradual incline would become a faster, steeper costs incline for customers."*[6]

What are the impacts of the options for customers? Which option is the most acceptable to customers? Why?

The totality of customer impact can only be assessed in conjunction with other measures taken by the Government to accelerate the smart meter roll out. For example, where customer opt-out measures are removed to increase the penetration of smart meters.

Customer acceptance in relation to the smart meter roll out is generally not affected by the approach taken to accelerate it (i.e., customers are unlikely to care whether it is a controlled-load based target approach or an

[6] AGL Energy, *Submission to the Australian Energy Market Commission Review of the Regulatory Framework for Metering Services p 6 – 7.*

aged-based target). The option that is most acceptable to customers is often the one perceived to be the least inconvenient or lowest cost at the time the replacement is initiated.

As such, we anticipate that the controlled-load target replacement, where the customer benefit is demonstrable will be positively received by customers. However, options which create a positive obligation on a customer to do something, such as Option 4 – *Demand response appliance installation trigger*, will be challenging to enforce as the customer becomes the responsible party for initiating the smart meter installation, which may attract further costs for the customer if site rectification works are required before the smart meter is installed. In contrast to solar PV installations, where the customer must have a smart meter installed to reap the benefits of exporting solar, there is no incentive for a customer to initiate a meter exchange if, for example, they have just purchased a demand-response capable air conditioning unit, particularly if there is an additional cost imposed on them, such as meter board works.

Option 1 - Smart Meter Requirement for Controlled Load

Is five years a reasonable implementation timeframe for Option 1? Is an annual meter replacement obligation of 20 per cent of a retailer's controlled load small customers appropriate? If not, how should an annual obligation for Option 1 be structured?

The five-year implementation timeframe and proposed 20 per cent annual meter replacement requirements are reasonable. AGL supports this proposal.

Do you consider that Option 1 will significantly increase the replacement rate of type 6 meters?

AGL projects that the controlled-load target proposal will increase penetration of smart meters in South Australia in the next five years. Whether or not the increase is significant will depend on how effectively other issues affecting the speed of the smart meter roll out are addressed such as customer consent and physical issues affecting the site.

Option 2 – Target based roll out

Of the four options put forward to accelerate the roll out of smart meters, the proposed target-based approach would be the most operationally challenging and will require other structural impediments to the roll out to be addressed as a priority, such as access to sites to which the DNSP holds the keys, complex multi-site meter upgrades and physical hardware issues at the customer's site and customer refusal to undertake meter installation upgrades/repairs. While some of these issues can be resolved at a state level, for example through customer/retailer subsidies for the recovery of non-standard panel upgrades and rectification works, other issues can only be addressed by the AEMC at a national level and therefore depend on the speed at which the Review into Metering Services progresses.

Should Option 2 be open ended or include an end date by which time all small customers' type 6 meters must be replaced? If you support having an end date, what should it be?

AGL recommends a prospective end date of 31 December 2030 by which the retailer *must have attempted* to replace each customer's meter at the site. This will factor in failed sites, customer-opts outs and physical site issues affecting the installation which are outside of the retailer's control. Further, we recommend that if the Government proposes a backstop target date that it also considers a subsidy scheme or program that

rewards retailers for meeting milestones and targets ahead of time to further increase the speed at which retailers deploy smart meters in South Australia.[7]

What do you think is a reasonable annual meter replacement requirement? How should annual targets be set to ensure an increase relative to the current replacement rate?

AGL's preference is for an incentive-based program as outlined above. However, if the Government was to set a target, we believe an annual replacement target of around 10 per cent for the replacement of type 6 meters in South Australia is reasonable as long operational impediments are also addressed.

Option 3 – Age-Based Meter Replacement

AGL considers an age-based program is an important part of an effective and efficient digital meter roll out. However, the effectiveness has currently been hamstrung by a lack of information.

Specifically, retailers face significant barriers to effectively schedule metering work with their metering providers due to difficulties in accessing aged asset forecasts from DNSPs across all the NECF states, including SAPN.

AGL supports a nationally consistent mechanism for the exchange of aged asset information and long-range meter life forecasts by DNSPs in order to enable effective planning and meet aged-based meter replacement targets. We would also recommend the Government set a standard across the NECF by requiring SAPN to provide age replacement lists with retailers on a consistent basis to enable better planning and co-ordination of meter replacement.

For the purposes of Option 3, at what age should meters be required to be replaced?
N/A

Option 4 – Demand-response appliance installation trigger

What are the potential benefits and opportunities for this option? Will this option significantly increase the replacement rate of type 6 meters?

AGL welcomes the proposal to introduce a requirement whereby the customer must initiate a smart meter installation with their retailer.

However, the requirement should apply specifically to customers who have installed a battery system at their premises (whether or not they have also installed a solar PV system), as this can bring the consumer a direct and immediate benefit.

Due to the low customer incentive to initiate a meter replacement where, for example, the customer purchased an air conditioning unit, it is unlikely that a broad demand-response appliance trigger will be effective or incentivise a consumer to also seek a meter replacement. Other challenges with the broad approach include:

[7] See further recommendations on incentivising the roll out: AGL Energy, *Submission to the Australian Energy Market Commission Review of the Regulatory Framework for Metering Services, p 7.*

- Limited visibility for retailers into consumer purchase behaviours and trends for demand-response appliances, meaning no ability to forecast and effectively plan for the volume of work.
- An anticipated low and sporadic volume of customers who initiate meter exchanges through this mechanism. Unlike with solar PV system installation requirements to upgrade to a smart meter, there is little perceived consumer benefit in doing so under the proposed requirement, while the customer may incur additional costs if rectification works have to be undertaken prior to the installation.
- The lack of consumer purchases of demand-response appliances makes this program difficult to enforce and enforcement can also unintentionally disincentivise consumers to take up such appliances to avoid the associated costs of meter replacement.

While as a standalone approach the demand-response appliance trigger will not significantly increase the replacement rate of type 6 meters in South Australia, AGL strongly recommends that this requirement be introduced for customers who are installing a battery system at their premises to further promote the uptake of smart meters. This requirement could apply prospectively as well as retrospectively, to drive the customer-initiated smart meter upgrades and complement the Government's strategy to target controlled-load customers under Option 1.