Submission

to the

Department of Treasury and Finance

Review of the Advanced Metering Infrastructure Program

Brotherhood of St Laurence

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Summary

The Brotherhood of St Laurence welcomes the review of the Victorian Advanced Metering Infrastructure Program and would be pleased to discuss the matters raised in this submission in more detail. The review comes at a time when the Brotherhood is extremely concerned about the impact of rising electricity prices on low-income, vulnerable and disadvantaged households.

The recent AEMC (2010) report on electricity price movements identified that smart meters will contribute approximately 22 per cent to electricity price increases for Victorian consumers in the coming three years. We are also concerned that the accompanying introduction of new tariff structures may lead to considerable bill shock, forcing low-income, disadvantaged and vulnerable households into financial hardship.

We recognise that smart meters do have potential benefits for consumers, distributors and retailers. For example, smart meters could contribute to system-wide efforts to manage electricity demand and in doing so reduce the need for future infrastructure spending. How the benefits and costs are distributed is, however, critical; to date we do not believe the right balance has been achieved. Low-income households who will have less direct benefit from the introduction of the smart meters will pay proportionately more. The Victorian Government is in a position to address this imbalance.

Key recommendations outlined in this submission include:

- **rebates on the costs of smart meters** for low-income and disadvantaged households
- **encouraging retailers to develop a basic tariff** which provides low-income, disadvantaged and vulnerable consumers with a simple, affordable option
- **privacy safeguards** to be put in place to ensure consumer data is protected.
- **extensive community education** about smart meters, their functionality and pricing impacts, and the opportunities to save money through participation in competitive markets. This should include working with community organisations like the Brotherhood of St Laurence to develop and implement education programs.

1 The Brotherhood of St Laurence, low-income household energy efficiency and smart meters

The Brotherhood of St Laurence (BSL) is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the BSL continues to fight for an Australia free of poverty. We undertake research, service development and delivery, and advocacy, with the objective of addressing unmet needs and translating the understandings gained into new policies, new programs and practices for implementation by government and others.

Our work includes documentation of the challenges facing low-income households in the context of a privatised electricity market and climate change. Our research shows that such households will experience greater hardship due to rising electricity prices. This is because, although low-income households generally use less electricity, the proportion of income spent on electricity is higher for low-income households than for higher income households.

Advanced metering infrastructure and rising energy prices

The Brotherhood of St Laurence welcomes the review of the Victorian Advanced Metering Infrastructure Program. The short time frame of the review process means that our response is limited to several key points. We would be pleased to discuss the matters raised in this submission and can provide supporting data as required.

The review comes at a time when the Brotherhood is extremely concerned about the impact of rising electricity prices on low-income, vulnerable and disadvantaged households. Recent cost of living increases have hit these households particularly hard. These households spend proportionately more of their income on energy and other basic needs than high income households.

Significant media attention has focused on increased costs resulting from the introduction of a carbon price. However we note, and welcome, the Commonwealth's commitment to fully compensate low-income households for carbon price increases.

The recent AEMC (2010) report on electricity price movements identified that metering costs, which include smart meter infrastructure, will contribute approximately 22 per cent to electricity price increases for Victorian consumers in the next three years. We also note that increases in retail costs, will contribute over 60 per cent of electricity price increases in the same period, well above the amount in other states.

The Baillieu government's extension of the 17.5% energy concessions for Health Care Card holders to apply to the entire year is a welcome measure. To date the commitment does not, however, offset the significant costs of smart meters to low-income Victorians.

Addressing the regressive nature of smart meters

Smart meter infrastructure costs, as presently charged, are regressive. As a proportion of their income low-income households pay more for the technology than wealthier households. Future time-of-use electricity tariffs, which will be made possible by smart meters, may lead to further regressive impacts in electricity bills.

To address these issues the Victorian government should consider targeted actions to prevent financial hardship for disadvantaged households.

2 Response to review questions

Costs and benefits of the program outlined in previous studies

a. Are there any identified benefits or underpinning assumptions that should be subjected to significant scrutiny and/or updated data?

Many of the benefits listed in Table 1 of the issues paper are based on the assumption that consumers will have access to real-time information and will be able to respond to that information. However metering changes are occurring without sufficient and appropriate information being provided to householders.

Many low-income and disadvantaged people are unable to respond to real-time energy data because:

- they have limited discretionary energy consumption and are therefore unable to switch off unwanted appliances. Most low-income households, for example, consume less energy than the average household. This is a function of household size and lower levels of appliance ownership, especially of energy-intensive items such as home entertainment systems. On the other hand, low-income households are also more likely to own older, less efficient appliances such as refrigerators or electric hot water services than average households.
- some have specific needs (for example illness or disability) that mean they are unable to shift their energy use to off-peak times.

b. Are there any recent or emerging risks which may impact on the estimation and achievement of the identified program benefits and costs?

The risks that need to be considered include:

- **tariff price shock.** We are concerned that new tariff structures may lead to considerable bill shock for low-income, disadvantaged and vulnerable households. This may in turn lead to increased late payment and bill defaults.
- **smart meter cost burden.** The cost of smart meters to low-income households is disproportionately high. This needs to be addressed by providing rebates to these householders. The easiest mechanism for identification of eligible households is likely to be concession cards.
- **privacy issues.** Safeguards need to be put in place to ensure consumer data is protected.
- **service continuity issues.** We are concerned about the risk of retailers leaving the market and consumers having to bear the cost of changing tot another retailer.
- complications from **technology being superseded**. There is a need to ensure the householder equipment can be adapted as technology continues to develop.
- **health concerns.** There is a need to ensure that issues related to electromagnetic fields are adequately explained to the public.

The regulatory framework

Please refer to submissions from our partner organisations such as Consumer Action Law Centre and Consumer Utility Advisory Council.

Technology

Technology issues are not addressed in this submission.

Sharing benefits

a. What can be done to ensure that the benefits of the AMI program are made available as widely and as early as possible to consumers?

We are concerned that many of the direct household benefits from the AMI program will flow disproportionately to high–energy user households, who have greater discretion in their energy usage. Most low-income households do not fall into this category as they, on average, use less energy than wealthier households.

A mechanism to enable low-income households to have access to consumption data should be provided to households with a concession card. A proportion of low income households will be unable to afford to purchase their own device to access consumption data. Further a proportion of households either do not own or regularly utilise a computer with internet access. Access to consumption data could be provided through a free in-home display or an alternative means that reaches this target audience. Such an approach will need to be connected to appropriate consumer education and engagement.

b. In addition to price signals, what other information and/or tools might consumers require to help them significantly change their energy use behaviour?

It is important to recognise that price signals are not necessarily useful in achieving energy-use behaviour change, particularly in low-income households. There is little empirical data showing their value. Those households with limited discretionary energy consumption will find it particularly difficult to respond to price signals. Key measures to assist households to change their energy usage behaviour should include:

Support for energy efficiency measures in low-income households

Government supported energy efficiency programs in low-income households can address a variety of barriers which limit households taking up energy efficiency themselves. These include capital, information, behavioural and trust barriers.

Installation and replacement costs are a significant barrier to many low-income households improving the energy efficiency of their homes or appliances. Significant capital and energy intensive items which lock in high energy costs include electric storage hot water services and old, inefficient refrigerators.

Low-income households tend to have a higher incidence of these energy-inefficient items. They are also more likely to have inadequate heating which is expensive to retrofit or replace.

Other energy effiency measures that need to be addressed include insulation and weather sealing. A further problem which has been highlighted through our research and services work is the prevalence of substandard housing with damage such as broken windows.

A large-scale program to address these constraints and assist low-income households transition to more energy efficient appliances would be a welcome compliment to smart meter technology.

Another important step to reduce energy consumption in many households is the provision of good quality information about the energy use of appliances and activities, in formats tailored to the needs of consumers, especially those with limited budgets.

Savings from behaviour change have been shown in numerous programs. Some of the largest savings have been achieved in households with particularly problematic energy consumption patterns, for example some households in hardship programs who are serviced by organisations such as Kildonan UnitingCare.

Community education including energy literacy

Community education provides an essential mechanism to improve the energy literacy of target households.

While there are considerable savings available from entering the competitive energy market, many households find it difficult to understand the opportunities. Energy literacy training provides an important means to improve householders' ability to engage in the market.

Rising energy costs, smart meters and associated tariff complexity will make energy literacy more important in coming years. Appropriate forms of education and engagement should be employed to ensure all groups in the community are able to participate in the competitive energy market.

c. How might such information and/or tools be made available to consumers in the most cost-effective way?

The Brotherhood of St Laurence successfully piloted a train-the-trainer energy literacy model, Navigating Energy Markets, which increased the ability of financial counsellors and other community support workers to educate their clients about energy literacy. We would like to expand this program for future undertakings.

Further work needs to be done to involve low-income and disadvantaged consumers in developing information/tools which meet their needs.

d. What might retailers be required or encouraged to do to help maximise benefits to consumers?

A mechanism to enable low-income households to have access to consumption data should be provided to households with a concession card. This could be provided through a free in-home display or an alternative means that reaches the target audience. Costs associated with the rollout of smart meters need to be kept down for low-income and disadvantaged households.

Retailers should also be encouraged to develop a basic tariff which provides low-income, disadvantaged and vulnerable consumers with a simple, affordable option to satisfy their basic energy needs, if they choose not to, or are unable to participate in, a fully competitive market

e. How reliant on the implementation of time-of-use pricing by retailers are these benefits?

Our concern is that time-of-use pricing will not deliver benefits for many disadvantaged households. We do not support a mandated time-of-use charging system as many people on a low income are unable to adjust their use to gain benefits.

Consumer protections

How might vulnerable consumers' interests be protected as the program proceeds?

Adequate consumer protections must be in place with the introduction of smart meters.

Our partners at CALC have done significant work in this area. We concur with their view that the National Energy Customer Framework (NECF) does not sufficiently address smart meters so the Victorian Government will need to add smart meter protections into the draft transitional legislation.

Current consumer protections need to be maintained to ensure no consumer is worse off with the introduction of smart meters. The Victorian Utilities Group (convened by VCOSS) is developing consumer policy principles. The following points draw on the work of that group and on the BSL's views. Consumer protections need to ensure:

- All consumers have a right to access electricity as an essential service
- Advanced metering (or other) technology should not be used to ration electricity or penalise households facing financial hardship
- Consumers must be provided with information in a format that is accessible and easily understood regarding tariffs and smart meter products and services
- Measures must be in place to ensure consumer information is protected, including adequate protection of privacy and restriction of data access.

The Victorian Government should initiate changes to the NECF to ensure it reflects any Victorian improvements in consumer protections around smart meters.

Consumer protection will also be strengthened by simplifying the tariff frameworks, so that consumers can readily understand their consumption, bills and options. The frameworks are currently overly complex and need to include a basic, low-cost option.

Reference

Australian Energy Market Commission (AEMC) 2010, *Future possible retail electricity price movements: 1 July 2010 to 30 June 2013—final report*, AEMC, Sydney, viewed 20 June 2011, <http://www.aemc.gov.au/Media/docs/CoAG%20Retail%20Pricing%20Final%20Report%20-%20Publication%20Version%2010%20June%202011-5fa4f4b8-8098-420c-a014-fa70808bb2e4-1.PDF>