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Telstra's Intellihub deal is a game-changer for the nation

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Telstra has entered into two major contracts with the giant Intellihub group that will be a vital part in the dramatic transformation of Australia's largest telecommunications company.

While later this week short-term analysts will pore over Telstra's interim report, long-term Telstra investors need to understand how this transformation will unfold and the significance of the Intellihub arrangements.

At the heart of the transformation are two separate but closely linked growth areas – first the expansion of what will become a data-based toll road called the “internet of things” network, and second, its energy thrust.

In combination, they provide Telstra with a long-term growth path that will differentiate it from conventional telecoms companies around the world.

To understand this growth path and realise the threat that Telstra energy poses to the current power providers like AGL and Origin, we need to look deeper into the Intellihub arrangement.

Intellihub is Australia's largest electricity smart-meter provider.

It became a metering powerhouse when Pacific Equity Partners brought together several metering companies led by Origin's Acumen, which it sold in 2018 for just \$267m. Intellihub is now worth about \$3bn.

Smart meters were originally devised to avoid sending readers to each dwelling, but they can now manage elements of household power usage more efficiently, and when combined with a mobile phone network a vast array of new opportunities arises.

Intellihub has about half the smart-meter market in Australia and has agreed to use Telstra SIM cards in all its new meters – a massive \$100m order.

Most of the major power companies in Australia, led by Origin, use Intellihub meters for part or all of their meter requirements.

The Telstra SIM cards relay data back to the power provider via Telstra's data “toll road” network, and they are being used for a much wider range of activities, which increases traffic. Telstra is also rapidly expanding its secure “toll” network alongside its mobile phone infrastructure to handle the vastly increased data expected to be transmitted. There must be no security leakage.

The booming use of this communication method and the transformation coming in energy means that this Telstra network will be a major infrastructure revenue source in the years ahead. Like a conventional toll road, greater usage delivers greater revenue.

Telstra plans to enter electricity retailing later this year, so when Intellihub announced its Telstra deal, there was understandable concern among Origin and other power companies. Telstra has gone to some lengths to assure users of its “toll road” network that there will be no leakage because security is at the essence of the infrastructure operation.

But there is a second part to the Intellihub/Telstra deal. Intellihub has been awarded “preferred meter supplier status” in the giant Telstra electricity rollout.

What makes this deal so significant to Telstra and the nation is the huge gap in the Australian power retailing market that Telstra looks to fill. Only about 25 per cent of power users outside of Victoria have smart meters.

Telstra will install a new Intellihub smart meter in almost all electricity customers that it signs up. If the customer wishes, it can be used to automatically switch on or off appliances to maximise the economical use of electricity, including solar power and batteries.

When connected to a mobile phone, the customer can remotely switch appliances on and off. Naturally the appliances require a SIM card.

But then over time the Telstra power revolution can move to a separate plane. With customer permission, Telstra will be able to tell them if a particular appliance (or car) is using more electricity than it should. It may need a repair.

Telstra's ability to facilitate the integration of solar and grid electricity will take on a new dimension when electric cars and their batteries become part of the whole operation.

Again with the customer's permission, the usage data can be used to recommend products. This creates a whole new area of long-term growth for Telstra.

Many truck companies already use the Telstra “toll road” and linked facilities to monitor their vehicles and get advance warning when repairs are needed. The same will apply to appliances and electric cars in the home.

Because Telstra is building two businesses, it can price electricity lower than most of its opponents, particularly for those using its phone network.

It is incredible that existing power providers didn't make it attractive for non-Victorians to link to smart meters, so they could lock in the wider market.

In Victoria, smart meters were made mandatory in 2006 and the cost added to power prices. Most are now running out of their useful life, so all new Victorian Telstra power customers will be given a new smart meter that can exploit the network advantages.

Unlike other power newcomers such as Shell and Ampol, Telstra has a vast phone database. To gain its electricity marketing licence in Victoria, strict criteria were imposed, which will be rolled out nationally. Telstra's Victorian requirements will require top standard database operation, which will be costly but will be far more effective in the transformation.