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Mr Chris Pattas
General Manager
Australian Energy Regulator
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By email: VICElectricity2016@aer.gov.au

Dear Mr Pattas

Submission on the AER's Issues Paper on Victorian Electricity Distribution Pricing Review for 2016-2020

Introduction

1. This is Vector Limited's ("Vector") submission on the Australian Energy Regulator's ("AER") *Issues Paper* on Victorian electricity distribution pricing review for 2016-2020, dated June 2015.
2. As one of New Zealand's largest energy and telecommunications service provider, Vector is actively seeking commercial opportunities in Australia's metering market, including the advanced metering market in Victoria. As such, our submission focuses on metering issues and our desire to see competition in this market.
3. We believe the removal of exit fees for the displacement of meters, and administration fees for meter transfers, will promote competition in the Victorian metering market. A competitive market will deliver significant benefits to electricity consumers in the state.
4. This submission is made in the context of recent decisions by Australian regulators that would have a significant impact on the metering market. These include the Australian Energy Market Commission's ("AEMC") *Draft Rule Change* expanding competition in metering and related services in the National Electricity Market ("NEM"), the AER's *Final Decisions* on NSW and ACT electricity distribution for 2015-2019, and the AER's *Preliminary Decisions* on Queensland and South Australian electricity distribution for 2015-2020.
5. No part of this submission is confidential and we are happy for it to be made publicly available.

6. Vector's contact person for this submission is:

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Classification of metering services

7. Victorian distributors are proposing the re-classification of some of the opex associated with their AMI 'smart meter' program from Alternative Control Services (unbundled from network charges; user pays) to Standard Control Services (cost recovery from the network customer base).
8. We do not support this proposal, which we consider to be a step back from the promotion of competition in the Victorian metering market.
9. Classifying metering services under Alternative Control promotes pricing transparency that enables market participants to make more informed investment decisions, an important feature of a competitive market. It also improves the ability of those services to become contestable, and as a lighter-handed form of regulation (relative to Standard Control), it is an appropriate classification in the context of an emerging competitive market.
10. In addition, classifying metering services in Victoria as Alternative Control Services is consistent with the AER's recent *Final Decisions* for NSW and ACT distribution for the next regulatory control period. This promotes the principle of regulatory consistency across jurisdictions.
11. We therefore **recommend** that the AER classify all metering services in Victoria as Alternative Control Services for 2016-2020.

Metering exit fees and recovery of residual capital costs

12. Vector has been an active participant in the AER's consultations on the regulatory resets for electricity distribution in the NEM, particularly in relation to metering and related services. We have consistently supported the expansion of competition in the market for these services.
13. The issue of exit fees has been discussed exhaustively in the AER's distribution determination processes in other NEM jurisdictions. The proposal by Victorian distributors to impose exit fees for the displacement of their meters does not support the policy objective of expanding competition in the metering market. By imposing costs on entrants, exit fees create a barrier to market entry, stifling competition and innovation. Exit fees therefore do not provide the right incentives for market entry and investment.

14. Exit fees also put the first mover into the market at a disadvantage, as subsequent entrants (and incumbents) do not face these costs, which is inefficient and unfair.
15. We are not aware of exit fees being imposed in similar markets transitioning to new technology. For example, competition in metering services for large customers was introduced in Australia without resorting to exit fees.
16. We note that the mandatory deployment of advanced meters in Victoria resulted in huge cost overruns, which triggered consumer backlash.¹ Imposing additional burden on Victorian consumers for the same meters is not a desirable outcome.
17. We **recommend** that the AER remove metering exit fees in Victoria for 2016-2020.

Recovery of residual capital cost

18. While we oppose exit fees, we agree that Victorian distributors should be allowed to recover the costs of their efficient regulated investment.
19. We **recommend** that the AER adopt in Victoria the approach it approved for NSW and ACT distributors for the recovery of the residual capital costs of their metering assets for the next regulatory control period. This would avoid the stranding of those assets, and promote the principle of regulatory consistency across jurisdictions and services.

Administration fees for meter transfers

20. We oppose the imposition of "administration fees" (or "handling fees"), proposed by Victorian distributors, for the transfer of customers to another metering service provider. Like exit fees, administration fees create a barrier to market entry and competition in the Victorian metering market.
21. The AER's distribution determination processes in other NEM jurisdictions have generated arguments and ample evidence that administration fees, in addition to creating a barrier to market entry, are immaterial and unnecessary. We summarised them in our submission on the AER's *Preliminary Decisions* for Queensland and South Australian distribution,² dated 3 July 2015, and reiterate them below:
 - Information from retailers shows that meter transfer costs are immaterial.
 - The proposals submitted by distributors do not assume batch processing, which can deliver significant efficiencies.

¹ <http://www.med.govt.nz/sectors-industries/energy/electricity/new-zealand-smart-grid-forum/meeting-6/case-study-victorian-smart-meter-rollout.pdf>

² <http://vectorams.com.au/documents/597574/598208/Vector+Submission+AER+Preliminary+Decision+for+QLD+and+SA.PDF/9880b349-e341-4c1f-b453-7af222b629ac>, pages 3-4

- An increase in distributors' staff is not required; it will be meter service providers, as the Financially Responsible Market Participants, who will bear the incremental costs of meter churn, not distributors.
 - Retailers and acquirers of a new metering customer, who bear the costs of acquisition, are incentivised to keep costs down and work with the business that lost the customer to ensure smooth market operation.
 - The Australian Energy Market Operator's amended meter churn procedures, which will take effect in September 2015, place the onus of administering meter transfers on the incoming Responsible Persons and their Metering Providers, minimising distributors' role in this process.
 - The magnitude of the proposed administration fees (for a simple transfer process) are disproportionately higher than the AER-approved metering opex per customer in other NEM jurisdictions.
 - Distributors are not currently imposing meter transfer fees on their large customers.
 - Distributors are churning meters for customers installing solar PV systems in large numbers without imposing administration fees for the meter transfer.
 - The tasks of transferring meters are not unique to distributors; alternative metering service providers will perform many of these tasks in the emerging competitive market.
22. In relation to the cost of disposing meters, we understand that while distributors in Victoria required their legacy metering assets to be removed, others left it to their Field Service Providers to responsibly recycle the asset. The proceeds from recycling were then used to offset disposal costs. We expect the competitive metering market to deliver innovative solutions for the transfer or disposal of meters.³
23. Moreover, given that advanced meters are already deployed in Victoria, it is reasonable to assume that meter transfers can be executed more efficiently in this state than in other NEM jurisdictions (at least initially) because of more accurate and timely reads.
24. We therefore **recommend** that the AER remove administration fees for meter transfers in Victoria for 2016-2020.

New connections

25. The Victorian AMI derogation will expire on 31 December 2016. There is a six-month gap between its expiry and the *Rule Change* expanding competition in the metering market taking effect. The AEMC has proposed to extend the current AMI

³<http://vectorams.com.au/documents/597574/598208/Vector+Submission+Residual+Capital+Cost+Recovery.pdf/360e258c-f516-472e-81a8-84cac007a734>, page 4

derogation to 1 July 2017 to bridge this time gap.⁴ We assume the AEMC will further extend the expiry date by five months, following its recent announcement that it expects to revise the implementation date of the new rules to 1 December 2017.⁵

26. Should the current AMI derogation be extended beyond 1 December 2017, for whatever reason, we **recommend** that the AER and/or AEMC consider introducing competition to new connections as a transitional measure towards full market competition in Victoria.

Concluding comments

27. To recap, we **recommend** that the AER, in making its preliminary and final determinations for Victorian electricity distribution for 2016-2020:

- classify all metering services as Alternative Control Services to promote pricing transparency that facilitates market competition;
- remove metering exit fees, which create a barrier to market entry;
- allow Victorian distributors to recover the cost of their investment in metering approved by regulators using the same approach the AER applied to NSW and ACT distribution for the next regulatory control period;
- remove administration fees for meter transfers, which also create a barrier to market entry; and
- consider the introduction of competition to new connections should Victoria's current AMI derogation be extended beyond 1 December 2017, when competitive arrangements in metering and related services take effect in the NEM.

28. We are happy to discuss with AER officials any aspects of this submission.

Yours sincerely

For and on behalf of Vector Limited



Richard Sharp

Head of Regulatory

⁴ <http://www.aemc.gov.au/getattachment/77ab14e8-7248-4187-b4b7-3af762b4b30d/Draft-determination.aspx>, page 291

⁵ <http://www.aemc.gov.au/Rule-Changes/Expanding-competition-in-metering-and-related-serv/Draft/AEMC-Documents/Information-sheet-extension-of-time-for-final-rule.aspx>