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By email: DMO@aer.gov.au

Dear Mark

Submission on the Implications of COVID-19 for the DMO Price Determination for 2020-21

Introduction

1. Vector Limited (Vector) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) letter, dated 31 March 2020, seeking stakeholder feedback on the implications of COVID-19 for the Default Market Offer Price determination for 2020-21 (DMO 2).
2. At this challenging time, Vector continues to work with our supply chain partners to ensure the risk of COVID-19 transmission is reduced as much as possible as essential services continue to be delivered. This is to ensure the continued wellbeing and safety of our people and to reduce the risk of community spread as much as possible.
3. Vector's advanced metering business (Vector Metering) is a registered Metering Coordinator, and an accredited Metering Provider and Metering Data Provider in the National Electricity Market (NEM), directly and indirectly employing some 330 people in Australia. We have initiated measures such as staff working from home and contactless engagement between our meter installers and the public to ensure our services are delivered with the lowest risk to community transmission.
4. Vector Metering is also proactively engaging with customers to better understand the implications of the unfolding COVID-19 crisis on our respective businesses and the delivery of services to consumers. Importantly, we are assessing COVID-19's impact on the progress and timing of the deployment of advanced meters and the delivery of their benefits to consumers in the NEM. We discuss below the relevance of these developments to the AER's determination of DMO 2.
5. No part of this submission is confidential. Vector's contact person for this submission is:

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Advanced metering as an enabler of resilience

6. Vector's submission on the AER's draft determination on DMO 2, dated 9 March 2020, identified and described the multiple benefits of smart meters to consumers, retailers,

networks and the environment.¹ The benefits include, among others, more accurate and more real-time billing (hence fewer complaints and disputes), ability to switch retailers quickly, reduced costs from remote meter reads, remote energisation and de-energisation, and more efficient network management.

7. Importantly, advanced meters enable service providers to deliver new and innovative services to the market, and provide consumers greater control over their electricity use and consumption. Advanced meters facilitate digitalisation which enables the development of new business models that deliver improved and innovative services to consumers.
8. The above benefits and features of advanced meters, which are now widely recognised by energy regulators and industry participants, are also what make advanced meters enablers of resilience. For example, remote services enabled by advanced meters allow the delivery of contactless services during the ongoing COVID-19 crisis, protecting the health and safety of metering service providers, their customers, and the public (by having fewer people travelling, reducing the risk of transmission).
9. The electricity industry's announcement of measures to support consumers in hardship, and regulators' adoption of pragmatic approaches to regulatory compliance (to reduce compliance costs), in response to COVID-19 have been quick and generally well-coordinated. More accurate and timely information, through half hourly and more real-time data generated by advanced meters, enable the efficient and well-targeted delivery of these support measures to consumers who need support the most. In addition, switching from quarterly to monthly billing, enabled by advanced meters, helps those in hardship to better manage their bills/finances.
10. The OECD report on the potential initial impact of COVID-19 containment measures forecasts a 22% contraction of Australia's Gross Domestic Product.² This sharp reduction in economic activity could result in some retailers experiencing financial difficulties due to defaulting customers (who have lost their jobs, are experiencing reduced incomes, or have contracted COVID-19 and unable to work, etc). We discuss the impact of an economic downturn on Vector Metering below.
11. Retailer insolvencies are also a major risk, particularly for small energy retailers. In the event of a retailer insolvency, advanced metering enables a defaulting retailer's 'orphaned' customers to switch to another retailer quickly. The efficient transfer of customers during such an event avoids disruption of electricity supply to consumers, which is particularly critical for consumers on life support equipment and vulnerable consumers.
12. The heightened ability of networks to detect faults, enabled by advanced meters, help ensure that 'the lights are kept on' during the crisis period, particularly for essential service providers, e.g. hospitals, supermarkets and emergency services.
13. Advanced metering services are therefore vital at times like the present (to ensure resilience and energy affordability) and for the longer term (to ensure continued innovation that benefits consumers). Vector Metering continues to provide advanced metering services, which we and our customers consider to be essential services.

The importance of continued and timely deployment of advanced meters

14. Vector's submission on the AER's draft determination on DMO 2 proposed that the AER reflect advanced metering cost increases in forecasting changes to input costs for DMO 2. This is to reflect the transitional cost effects that, if ignored, could create barriers in the mass

¹ <https://www.aer.gov.au/system/files/Vector%20-%20DMO%202%20Draft%20Determination%20submission%20-%209%20March%202020.pdf>

² http://www.cica.net/wp-content/uploads/2020/04/200331_OECD_evaluating-initial-impact-of-Covid-19.pdf

deployment of advanced meters. We reiterate that call for the same reason and to ensure the use and deployment of advanced meters are optimised to ensure the electricity sector's resilience in this time of crisis.

15. A re-assessment of the reference price for metering in DMO 2, taking into account all metering costs, would reflect more realistic charges and address cost recovery uncertainty for retailers. It would help ensure that there are sufficient incentives for retailers to keep deploying advanced meters, so consumer benefits can be delivered in a timely manner.
16. The AER's assumption in calculating DMO 2 appears to use recent network metering costs as a reference. This approach does not consider changes to market mechanisms brought about by the introduction of competition in the metering market through the *Power of Choice* reforms. Failure to recognise this will result in an artificially lower DMO 2 that is not reflective of the true cost of metering. These changes include:
 - a. customers in general no longer contributing up-front to the cost of metering via up-front charges; rather, these costs are recovered via annual charges;
 - b. retailers currently absorbing some costs related to remediating unsafe electrical meter boards and connections so that meter installations can proceed; and
 - c. new regulatory obligations introduced in February 2019 that require retailers to respond to customers faster or face civil penalties. To meet these requirements, retailers and service providers are required to have higher back office and field force capacity, resulting in higher costs.
17. In respect of the impact of COVID-19, we anticipate the following impacts on our business:
 - a. Consumer demand for metering work will fall as a result of the expected economic downturn. Without mitigation, this fall in demand will have a direct negative impact on our back office and field resourcing levels. We encourage regulators to offset this anticipated decline in metering installation numbers by enabling the acceleration of the replacement of legacy metering fleet. To this end, we suggest that the AER encourage DNSPs to provide greater transparency and certainty to retailers about the status of their metering fleet, including age and certification. This will lead to better planning and keep the rollout of smart meters at a volume that will benefit consumers by keeping overall metering costs low.
 - b. Operational work would be affected if team members fall ill. This would result in delays to providing metering services. Should this eventuate, we would request the AER to relax or suspend obligations retailers and competitive metering providers are subject to, e.g. mandated installation timeframes.
 - c. There could be loss of confidence by the community that technicians can safely conduct metering work without them being a health risk. Should this risk eventuate, we would anticipate a high number of customer refusals to address metering faults and malfunctions.
 - d. Supply chain and procurement has a potential to be impacted by COVID-19. Like all service providers, our equipment is manufactured outside of Australia. Our suppliers are currently reviewing impacts to their capacity to meet our procurement needs. There is a potential that this supply could be interrupted. In addition, we are subject to currency fluctuations and currently estimate procurement costs have increased by 10% as a direct result of the COVID-19 crisis.
 - e. Increased consumer hardship brought about by the anticipated economic contraction is anticipated to impact the revenues of our retailers who pay us for providing metering

services. COVID-19 heightens the risk of retailers being placed in financial difficulties and being unable to meet their financial commitments.

18. Incentivising the continued deployment of advanced metering through a more realistic metering component in DMO 2 should be seen not only as a cost but as an innovation-enabling and resilience-building investment, the benefits of which would offset initial marginal costs. Some of these benefits can immediately be realised by consumers, e.g. more accurate and timely billing and greater ability to switch retailers.

Other industry participants' views

19. Vector supports the following views expressed by industry participants in their submissions on the AER's draft determination on DMO 2:
 - a. 1stenergy: *It's unclear in the draft determination if current meter replacement costs have been captured within the AER's analysis which we estimate at \$140 on average per annum and given the progressive uptake overall metering costs are increasing year on year. We urge the AER to recognise that Power of Choice meters cost significantly more than the residual basis meter and factor an appropriate cost into the DMO.*
 - b. Australian Energy Council: *It may be necessary in future determinations for the AER to take into account the annual cost of digital meters. The Queensland Competition Authority's 2019 publication serves as a useful guide for this, as it highlights the annual costs of advanced digital meters that retailers incur and notes these costs are unlikely to materially decline.*
 - c. Origin Energy: *...we consider the introduction of five-minute settlements will impose significant costs on retailers. We believe the AER also has an obligation to determine a DMO price that does not understate a retailer's actual costs but gives retailers a reasonable opportunity to recover their efficient costs; which we consider the AER has not allowed for in this particular circumstance.*
 - d. Powershop / Meridian: *It is disappointing that the AER chose not to split residential and small business load profiles, citing a lack of smart meter technology in the DMO areas. While, the Consultant may conclude that there are few customers with smart meters, no analysis has been done on the rate of change in the roll-out...In addition, this decision will reduce the incentive to provide innovative products which inherently rely upon smart meters.*

Concluding comment

20. We are happy to provide further and more up-to-date information on the implications of COVID-19 on our advanced metering business and our customers, and discuss any aspects of this submission with the AER.

Yours sincerely



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