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Mr Chris Pattas
General Manager - Networks Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: VICelectricity2016@aer.gov.au

Dear Mr Pattas

**Submission on Whether to Amend the F&As of Victorian Distributors
for the Regulatory Control Period 2016-2020**

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Australian Energy Regulator's ("AER") notice inviting submissions on whether it is necessary to amend or replace the current Framework and Approach papers ("F&As") for electricity distributors in Victoria, released for consultation on 7 April 2014. The relevant distributors are Citipower, Powercor, Jemena, SP AusNet and United Energy ("Victorian distributors") and the relevant period is the next regulatory control period of 1 January 2016 to 31 December 2020.
2. Vector is one of New Zealand's largest listed companies. We provide services in the New Zealand electricity, gas and telecommunications sectors. Our metering business, Advanced Metering Services ("AMS"), is New Zealand's leading smart meter provider.
3. While our operations are currently limited to New Zealand, we are investigating commercial opportunities in the Australian smart metering market, including in Victoria. Our submission is therefore focused on the metering market and Australia's energy consumers.
4. We believe it is desirable and necessary to amend or update, if not replace, the F&As for the regulated Victorian distributors for the next regulatory control period. There have been recent changes in policy settings that will have implications for market arrangements in the coming years. The AER would need to take account of these developments, including reflecting them in the F&A papers, as necessary.

5. Recent policy changes include the Government's intention to introduce competition in the metering market. This would have significant implications for Victoria, which implemented a mandated rollout of smart meters, and the state's electricity consumers.
6. No part of this submission is confidential and we are happy for it to be made publicly available.
7. Vector's contact person for this submission is:

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Transition to a competitive metering market

8. Vector agrees with the Australian government's market-led approach to achieving its efficiency and competition objectives in the electricity sector, as reflected in the National Electricity Objective.
9. We note the Australian Energy Market Commission's ("AEMC") Power of Choice review, which sets out "recommendations for supporting market conditions that facilitate efficient demand side participation" in the electricity market.
10. We support, in principle, the Standing Council on Energy and Resources' ("SCER") rule change request of October 2013, which is intended to provide competition in metering and data services. This would pave the way for the provision of metering services not only by distributors but also by retailers, independent meter owners or even customers.
11. Ultimately, we believe that the regulation of metering services should fall away as a competitive metering market emerges in Victoria.
12. Our view is supported by our experience in the New Zealand metering market, where the government and the Electricity Authority (the electricity market regulator) have not found it necessary to regulate metering as market arrangements are working effectively. The New Zealand model has led to the rapid deployment of approximately 1.1 million smart meters (55% penetration) over the past few years at no direct cost to consumers.
13. The SCER rule change request notes that "the AEMC considered the current arrangements in Victoria, where a mandated rollout of smart meters has been undertaken" and that "the AEMC recommended that there should be some arrangements put in place that have regard to that rollout".

14. The change request further notes that SCER officials believe “it is appropriate that arrangements are put in place to accommodate the Victorian rollout to the extent possible, noting that the transitional requirements will depend heavily on the AEMC’s review into the open access and communication standards to support demand side services”. It provides that “Victoria may determine that the Victorian smart meter functionality specification is to continue to apply in Victoria through jurisdictional instrument”.
15. The AEMC’s final report on a *Framework for Open Access and Common Communication Standards*, dated 31 March 2014:

...consider[s] that transitional arrangements will be required, including for Victoria. Considerations will include arrangements where the open access framework is introduced part way through a distribution determination period and network businesses are required to commercially negotiate for access to smart meter functionality; and any arrangements to allow for network businesses to be compensated if the costs associated with existing metering infrastructure had not been fully recovered.¹
16. We look forward to providing feedback on the AEMC’s proposals on how the SCER rule change request will be implemented, particularly its proposals to introduce competition in the metering market in Victoria.
17. The above developments and related ongoing work by regulators would have significant implications on regulatory and market arrangements for the Victorian metering market and electricity market more generally in the coming years. We believe the AER needs to take them into account in developing F&A papers and in making determinations, for example, on how legacy metering assets should be treated.
18. Vector is accelerating the depreciation of its legacy metering asset base in the competitive New Zealand metering market. We are three-quarters of the way through the rollout of approximately 840,000 smart meters that we have been contracted to supply to New Zealand retailers.

Stakeholder forums

19. The F&A consultation process would provide an opportunity for stakeholders to put forward their views on the development of a transition path towards a competitive metering market in Victoria and related issues, or develop their views in the process.
20. As part of this process, we **recommend** that the AER facilitate forums where market participants could discuss options for efficient (i.e. least market

¹ Australian Energy Market Commission 2014, *Final Report - Framework for open access and common communication standards*, 31 March 2014, Sydney, Summary, pages iii-iv

distortionary) transitional arrangements for metering. This could include discussions on various approaches for the setting (or preferably elimination) of exit fees and the accelerated depreciation of legacy metering assets.

21. Such forums would assist in providing certainty for market participants and potential investors to make efficient decisions in a rapidly evolving market.

Concluding comment

22. We would be happy to share our experience in the competitive New Zealand metering market with AER-Victoria officials and staff.

Yours sincerely



Bruce Girdwood

Group Manager Regulatory Affairs