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Project Number: ERC0169

Submission on the Draft Rule Determination - Expanding Competition in Metering and Related Services

Introduction

1. Vector Limited ("Vector")¹ welcomes the opportunity to make this submission on the Australian Energy Market Commission's ("AEMC") Draft Rule Determination ("the Draft Rule"), dated 26 March 2015, comprising the:
 - National Electricity Amendment (Expanding competition in metering and related services) Rule 2015; and
 - National Energy Retail Amendment (Expanding competition in metering and related services) Rule 2015.
2. Vector generally supports the AEMC's Draft Rule, which sets out proposed changes that collectively set the framework for expanding competition in metering services to small businesses and residential consumers in the National Electricity Market ("NEM").
3. We appreciate, in particular, the AEMC exercising restraint by leaving most of the proposed arrangements to commercial negotiations and to the rapidly evolving metering market. This supports the Government's market-led approach to achieving its efficiency and competition objectives for the electricity sector. As stated in our previous submissions to the AEMC and the Australian Energy Regulator ("AER"), as market competition emerges, the need for regulation should fall away.

¹ Vector is one of New Zealand's largest listed companies and the country's largest electricity distribution network, supplying the Auckland region. Vector also provides gas distribution network services in more than 20 towns and cities in New Zealand's North Island. It further provides gas supply and treatment, electricity and gas metering services, and fibre optic broadband communication networks in Auckland and Wellington.

4. We set out below our comments on specific proposals in the Draft Rule.
5. This submission is informed by the AER's final determinations for electricity distribution in NSW and ACT for the 2015-2019 regulatory control period, released on 1 May 2015.
6. No part of this submission is confidential and Vector is happy for it to be made publicly available.
7. Vector's contact person for this submission is:

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Roles and responsibilities

8. We generally support the proposed roles and responsibilities set out in the Draft Rule for Metering Coordinators, Metering Providers, Metering Data Providers, retailers, and distributors.

Consumer arrangements

9. We generally support the consumer arrangements proposed in the Draft Rule.

Application of the minimum services specification

10. We welcome the AEMC's decision to adopt minimum services specification, rather than minimum functionality specification that could stifle technological and service innovation and undermine technology neutrality. Importantly, mandating functionality specifications could lock out parties not using those specifications from the market, limiting competition.
11. In our view, most smart metering providers in a competitive market are likely to exceed the minimum services specification so they could deliver improved services to their customers and attract new ones.
12. We particularly support the proposed "opt out" (rather than "opt in") arrangements for consumers who want to retain their existing functional meters. Opt out arrangements guarantee consumer choice without compromising and unduly delaying the mass deployment of smart meters.

Network regulatory arrangements

Cost recovery for regulated metering services

13. We welcome the AER's final determinations for NSW and ACT electricity distribution for the 2015-2019 regulatory control period, which remove 1) upfront "exit fees" for the replacement of legacy meters with smart meters, and 2) "administration fees" for the transfer of a customer to another metering service provider. Both fees create a barrier to entry, particularly for first movers into the market, inhibiting competition and potentially delaying the timely deployment of smart meters.
14. We agree with the AER's decision to allow distributors to recover the cost of their efficient investment approved by regulators, i.e. the "residual capital costs" of their legacy metering assets, as an alternative control service.

Distribution ring-fencing arrangements

15. The Draft Rule requires the AER to prepare and publish "national ring-fencing guidelines for the accounting and functional separation of the provision of direct control services from other services provided by DNSPs, which can include legal separation"². These guidelines are to be published by 1 July 2016.³
16. The Draft Rule further states that "the development of the guideline[s] will be subject to the standard distribution consultation process".⁴
17. We support the development of the above ring-fencing guidelines and look forward to participating in the AER's consultation process on the draft guidelines.

Access to Metering Coordinator services

18. We support the AEMC's proposal not to regulate access to Metering Coordinator services, including price and other terms and conditions for the supply of those services. We agree that access regulation in this case is "likely to introduce more costs than benefits" and "may significantly diminish the incentives for different parties to invest in metering services".⁵

Arrangements for Victoria

19. We have no significant issues with the proposed transitional arrangements for Victoria.

² AEMC 2015, Expanding competition in metering and related services, Draft Rule Determination, 26 March 2015, Sydney, page 228

³ *Ibid.*

⁴ *Ibid.*, page 236, footnote 520

⁵ *Ibid.*, page 252

20. We agree with the AEMC's proposal not to extend the exclusivity period in Victoria beyond the commencement of the new Chapter 7 of the Rules. This will promote regulatory consistency across the NEM, reducing costs for parties operating across jurisdictions and ultimately, consumers.

Other comments – metering standards development

21. Our March 2015 submission to the COAG Energy Council on the regulatory implications of new products and services in the electricity market reflects our view that new sector-specific regulations intended to accommodate these products and services, in addition to ongoing reforms, are unwarranted.⁶ More prescriptive regulations are likely to limit market competition that benefits and protects consumers.⁷
22. We believe that, where appropriate, new products and services could be subject to new or evolving standards,⁸ particularly in safety and metering installation. The development of fit-for-purpose standards could be initiated by industry participants nationally or jurisdictionally, through industry standards forums and bodies, in consultation with consumers.⁹
23. The AEMC and other regulators could encourage industry initiatives to update or develop standards that take into account new or innovative products and services in the metering market.
24. We would be happy to actively participate, if not play a leading role, in such industry initiatives.

Concluding comment

25. We are happy to discuss with AEMC officials any aspect of this submission.

Yours sincerely
For and on behalf of Vector Limited



Richard Sharp
Head of Regulatory

⁶<http://vectorams.com.au/documents/597574/598208/Vector+Submission+COAG+New+Products+%26+Services.pdf/d0a4157f-b578-4519-b92f-79542b7e5c2c>, page 1

⁷ *Ibid.*

⁸ *Ibid.*, page 5

⁹ *Ibid.*