

20 March 2015



**Vector Limited**  
101 Carlton Gore Road  
PO Box 99882, Newmarket  
Auckland 1149, New Zealand  
[www.vector.co.nz](http://www.vector.co.nz)  
Corporate Telephone  
+64-9-978 7788  
Corporate Facsimile  
+64-9-978 7799

COAG Energy Council Secretariat  
GPO Box 9839  
Canberra ACT 2601

By email: [energycouncil@industry.gov.au](mailto:energycouncil@industry.gov.au)

## **Submission on the Regulatory Implications of New Products and Services in the Electricity Market**

### **Introduction**

1. Vector Limited ("Vector")<sup>1</sup> welcomes the opportunity to make this submission on the Council of Australian Governments ("COAG") Energy Council's consultation paper, *New Products and Services in the Electricity Market – Consultation on regulatory implications* ("the consultation paper"), dated December 2014.
2. Overall, we are not convinced that "regulatory reforms" are warranted to accommodate new products and services being offered to small electricity consumers, in addition to ongoing reforms in the National Electricity Market ("NEM"). We believe more prescriptive arrangements in a rapidly evolving market would limit competition and innovation that benefit consumers, including the delivery of better and even safer products and services.
3. In our view, regulators should instead encourage industry initiatives to update or develop standards that take into account new products and services in the electricity market, in consultation with consumers.
4. No part of this submission is confidential and we are happy for it to be made publicly available.

---

<sup>1</sup> 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.

Vector is currently exploring commercial opportunities in the Australian smart metering market.

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

Luz Rose  
Senior Regulatory Analyst  
[Luz.Rose@vector.co.nz](mailto:Luz.Rose@vector.co.nz)  
+644 803 9051

### **Market competition is a very effective protection for consumers**

6. We believe that a more open, dynamic and competitive market is a very effective, if not the most effective, protection for consumers. In competitive markets, consumers not only face multiple or alternative providers but also greater choice of better products, services, and tariff offerings.
7. A competitive market is a very effective mechanism for attracting interested parties who believe they can provide value or better value for consumers than what the market currently offers. The influx of new products and services to the electricity market promotes (and will continue to promote) competition that exerts downward pressure on prices, which benefit consumers.
8. In addition, the presence of multiple providers allows consumers to 'vote with their feet' if they are not satisfied with their current service provider.
9. An effective regulatory regime promotes competition in markets and provides a regulatory framework that addresses market failures where and when they occur. Any intervention into the market is only undertaken where it can be shown that the proposed solution will deliver significant net benefits to consumers.
10. The electricity sector is undergoing profound changes that could deliver massive benefits to consumers. It is in consumers' interest for this process to take its course and flourish without unnecessary interventions that may distort incentives for competition and innovation. This approach would also better align with the National Electricity Objective and the Government's efficiency and competition policy objectives for the electricity sector.

### **More prescriptive arrangements would inhibit innovation**

11. New products and services benefit consumers through more competitive pricing, greater choice, and enhanced consumer experience (e.g. new product features). As market competition increases, competing service providers constantly strive to win the favour of consumers by providing new and innovative services, and improving the efficiency of their operations and service quality.
12. Innovation cannot be purposefully designed. Less regulation and greater competition enable service providers to focus on improving services to consumers that differentiate themselves from other providers (including, for example, making

safer products and responding to consumers' complaints more expeditiously), rather than focusing on regulatory compliance.

13. In our view, regulators should focus on removing barriers to the introduction of new technologies and services, to promote innovation. Instead of imposing additional compliance costs and rules, regulators should create an environment that enables commercial solutions to be developed, including the efficient resolution of consumer complaints.
14. The New Zealand Commerce Commission recognises the primary importance of considering innovation in making regulatory decisions:

...where a tension exists between short-term allocative efficiency and long-term dynamic efficiency, the Commission will give greater weight to the latter...**Ongoing innovation and efficient investment over time can deliver significant long-term benefits to end-users**, and the adverse consequences of deterring or delaying such investment may be substantial.<sup>2</sup> [emphasis added]

15. The Electricity Authority in New Zealand (the regulator for the electricity sector) has refrained from regulating New Zealand's smart metering market. The market-led and retailer-driven approach adopted in this market has led to the deployment of 1.2 million advanced meters nationwide (60% market penetration) over the past few years. Meter functionality is driven by retailer innovation, which increases competition for consumers. Where there are consumer concerns, retailers are able to address them directly as they have a direct relationship with consumers.

### **New non-essential services do not warrant sector-specific regulations**

16. The consultation paper states that "[e]nergy-specific consumer protections are required because of the essential service nature of a supply of energy, which is necessary to support the health and wellbeing of residents of Australia and the functioning of the Australian economy" (pages 7-8).
17. In our view, the new products and services identified in the consultation paper can generally be described as "non-essential" services. This implies that consumers can opt out of purchasing these products and services, or 'vote with their feet' if they are not satisfied with their quality or how they were delivered by their service provider. Given their 'discretionary' nature, we do not believe developing sector-specific regulations for these products and services is warranted, at least at this stage, i.e. electricity would still flow in the absence of these services, or there are alternative or similar services available.

---

<sup>2</sup> Commerce Commission (2009). *Discussion Paper on Guide to Regulatory Decision Making for the Telecommunications Sector*, Wellington, <http://www.comcom.govt.nz/regulated-industries/telecommunications/archive/guide-to-regulatory-decision-making-for-the-telecommunications-sector-archive/>, pages 27-28

18. The consultation paper provides no evidence that the benefits of new sector-specific regulations will significantly outweigh the costs of (or reduced benefits from) a muted or delayed uptake of innovative and new services in the electricity sector.
19. An AEMO report on the value of customer reliability, published in 2014, notes that “residential customers are concerned about the rise in electricity prices since 2007-08”.<sup>3</sup> The report also indicates that “the majority of residential and business customers are satisfied with their current level of reliability and consider it to be of a high standard”.<sup>4</sup> This could imply that additional costs imposed on service providers in the electricity sector are likely to be borne by consumers without significant improvements in their reliability satisfaction levels.

### **Consumer protection exists**

20. We believe that current regulatory frameworks for consumer protection, together with ongoing reforms in the electricity sector, are appropriate and sufficient in ensuring the protection of small consumers in the NEM.
21. Developing sector-specific regulations in response to the introduction of new products and services presents significant challenges, the costs of which may not override any consumer benefits. One of the challenges is defining the “relevant markets”. The electricity market is rapidly evolving, and the definition and scoping of relevant markets (i.e. what new services and which providers should be captured for particular markets) will be tested in greater frequency and intensity than has previously been the case in this market.
22. Another challenge is monitoring new and emerging products and services as they evolve, mature, or exit the electricity market. How often do you review their status, e.g. whether arrangements governing them are benefitting or harming consumers? What would market failure (in relation to delivering net consumer benefits) look like?
23. Some of the products or services could be of such small value, especially when they are first offered, that the cost of regulating and monitoring them (particularly non-essential services) could override any consumer benefits.
24. The consultation paper appears to pre-empt problems that do not yet exist, or may never exist, at least not on a systemic scale. It would be futile to anticipate every possible product or service that will emerge with the advent of smarter electricity networks that are enabled by advanced meters.

---

<sup>3</sup> Australian Energy Market Operator (2014). *Value of Customer Reliability final report*, <http://www.aemo.com.au/Electricity/Planning/Value-of-Customer-Reliability-review>, page 1

<sup>4</sup> *Ibid.*

25. Part of the ongoing reforms in the electricity sector is the Australian Energy Market Commission's ("AEMC") proposed rule changes that would enable consumers to access information about their electricity consumption from their distributor or retailer. Our submission agreed with this proposal, in principle, particularly where it would encourage "demand side participation" and incentivise consumers to behave in their long-term interest.<sup>5</sup> For example, consumers could switch to another retailer that provides more competitive or better quality services.<sup>6</sup>
26. Proposals such as the above promote a more dynamic and efficient electricity market, where service providers are constantly striving to win, or win back, the favour of consumers by offering better products and improving the quality of their services.
27. We suggest that unless particular consumer issues become systemic, existing regulations and ongoing reforms are best left to run their course before potentially costly solutions (that could limit the supply and uptake of innovative products and services) are envisaged. Expanding the coverage of existing rules (through rule changes) should be prioritised over creating new ones.
28. As the consultation paper (page 8) itself states:

...we do not consider that fundamental changes to the National Electricity Law and Rules are needed to support the entry of most new products and services in the electricity supply market. Incremental improvements can always be proposed through the rule change process provided for in the law, overseen by the AEMC.

### **Industry solutions are preferable**

29. We believe that, where appropriate, new physical products could be subject to new or evolving standards (for example, in relation to safety, emissions, and interoperability). These standards, however, should be left for industry standards forums and bodies to develop rather than amending rules and regulations every time an issue crops up in relation to a group of new products and services.
30. The development of fit-for-purpose standards could be done by industry participants nationally or jurisdictionally, in consultation with consumers.
31. As competition further develops in the electricity market through the entry of new and innovative products and services, supported by industry standards, the need for regulation should fall away.

---

<sup>5</sup> Vector (2014). *Submission on Consumer Access to Electricity Consumption Information*, Auckland, <http://vector.co.nz/documents/101943/167718/Vector+Submission+Customer+Access+to+Metering+Information.pdf/1a7f731f-35a3-455d-b2e5-235986f7e710>, page 2

<sup>6</sup> *Ibid.*

## **Concluding comment**

32. We are happy to discuss with COAG's Energy Market Reform Working Group any aspect of this submission, including our engagements with consumers in the competitive New Zealand metering market.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'I. Ferguson', written in a cursive style.

Ian Ferguson  
**Regulatory Policy Manager**