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Submission on the Replacement of Tasmania's Distribution F&A for the Next Regulatory Control Period

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Australian Energy Regulator's ("AER") notice, released on 27 February 2015, inviting submissions on whether it is necessary to amend or replace the current Framework and Approach ("F&A") paper for electricity distribution in Tasmania. The F&A paper will cover TasNetworks, the electricity distributor in Tasmania, for the next regulatory control period, which will commence on 1 July 2017.
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, 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 Tasmania. Our submission is therefore focused on the metering market and Tasmania's energy consumers.
4. No part of this submission is confidential and we are happy for it to be made publicly available.
5. Vector's contact person for this submission is:

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Transition to a competitive metering market

6. We support, in principle, TasNetworks' request for a replacement F&A paper for its distribution business for the next regulatory control period.
7. We believe it is appropriate and necessary to amend or update, if not replace, TasNetworks' F&A paper in the context of ongoing policy reforms in the electricity sector. The AER needs to take into account impending changes, which will have significant implications for market arrangements and electricity consumers in Tasmania in the coming years.
8. Vector has consistently supported, in principle, the Government's market-led approach to achieving its efficiency and competition objectives for the electricity sector. This is reflected in our previous submissions to the AER and other Australian regulators such as the Australian Energy Market Commission.¹
9. Ongoing reforms include the introduction of competition in metering services in the National Electricity Market ("NEM"). This would have significant implications for Tasmania, where type 5 and type 6 ("legacy") metering services are currently being provided only by TasNetworks.
10. TasNetworks' existing F&A paper has envisaged no alternative metering providers entering the market (during the current regulatory control period), i.e. that metering services will continue to be provided only by TasNetworks (then Aurora Energy):

...the AER considers that there is a regulatory barrier to any party other than Aurora from providing metering services for type 5, 6 and 7 meters. Further the economies of scale and scope available to Aurora, particularly in relation to its network services, are likely to prevent standard metering services being competitively provided by an alternative service provider. The AER also considers there are no real substitutes for these services as all customers need to receive metering services for billing purposes.²

These factors contribute to the view that Aurora possesses significant market power in the provision of these standard metering services.³

¹<http://vector.co.nz/documents/101943/167718/Vector+Submission+Rule+Change+Expanding+Competition+in+Metering.pdf/b17aaa3e-1170-4d6f-91f0-b805c606e206>, pages 2 and 12;
<http://vector.co.nz/documents/101943/167718/FINAL+Vector+Submission+AEMC+Draft+Report+on+Open+Access.pdf/d8f0a9b4-b129-4fbb-b47d-72035ed7d261>, pages 5-8

²<http://www.aer.gov.au/sites/default/files/Final%20framework%20and%20approach%20paper%20for%20Aurora%20for%202012%20to%202017.pdf>, page 73

³ *Ibid.*

11. This assumption needs to be revised in TasNetworks' existing F&A paper, given that one of the intentions of the ongoing reforms is to open up the metering market to competition.

Exit fees and administration fees

12. As part of the transition to competitive metering arrangements, distributors in other NEM states proposed the imposition of "exit fees" for the replacement of their legacy meters with smart meters.
13. Our previous submissions to the AER and other regulators argued that exit fees should not be adopted for the next regulatory control period. Exit fees create a barrier to market entry, particularly for first movers, which limits competition. It would therefore frustrate the policy objective of promoting competition in the metering market. Our views on exit fees are discussed in detail in those submissions.⁴
14. While we oppose exit fees, we acknowledge that distributors should be allowed to recover the costs of their efficient regulated investment. Our submissions proposed mechanisms for the recovery of these costs without the use of exit fees. Our preferred option is to treat these costs as Standard Control Services (i.e. as part of the regulatory asset base) and recover them from the network customer base, i.e. through distribution use-of-system ("DUoS") charges.
15. In addition to exit fees, distributors proposed "administration fees" for the transfer of their customer to another metering provider. Again, we oppose these fees as they create a barrier to market entry and first-mover disadvantage, in the same manner as exit fees. They provide undue advantage to the existing provider by virtue of its incumbency rather than by operating more efficiently or providing improved services to consumers.
16. The issues of exit fees and administration fees were not material at the time TasNetworks' existing F&A paper was developed. The F&A paper therefore needs to be updated so that these matters can be given due consideration.

Developments in other NEM states

17. We welcome the AER's Draft Decisions on the NSW and ACT Distribution Determinations,⁵ issued in November 2014, which did not approve the exit fees proposed by distributors. The Draft Decisions propose to classify type 5 and type 6 metering services as Alternative Control Services, but propose to recover the

⁴<http://vector.co.nz/documents/101943/167718/Vector+Submission+on+AER+Issues+Paper+on+NSW+Distributors%27%20Proposals.pdf/eea6970e-409e-41a1-8eb9-c79270c2dd19>, pages 3-10;
<http://vector.co.nz/documents/101943/167718/Vector+Submission+Rule+Change+Expanding+Competition+in+Metering.pdf/b17aaa3e-1170-4d6f-91f0-b805c606e206>, pages 2-3 and 13-16

⁵ <http://www.aer.gov.au/node/28551>

residual capital costs of those meters through DUoS charges. We support this approach, which is in line with our position.

18. We, however, do not agree with the AER's proposal to classify administration fees as Alternative Control Services. We note that the AER was not satisfied with the level of administration fees proposed by NSW distributors. We do not support the imposition of administration fees for the reasons stated above, i.e. they impose additional costs on entrants which limit market competition.
19. Should the AER approve any administration fees, however, we propose that these fees be classified as Standard Control Services. Both residual capital costs and administration fees are associated with the reform process; but for the replacement of a legacy meter with a smart meter, both costs would not be incurred. Both costs should therefore be treated in a consistent manner.
20. Our submission on the AER's Issues Papers on the regulatory proposals of Queensland and South Australian electricity distributors for the next regulatory control period also reflect the above views.⁶
21. The consideration of recent and ongoing regulatory developments in other NEM states in the development of TasNetworks' F&A paper promotes consistency across jurisdictions. This reduces search and transactions costs for market participants operating across the NEM.

Other sectoral developments

22. Other significant developments and shifts in trends in the electricity sector provide compelling reasons to update or replace TasNetworks' existing F&A paper. Electricity demand is declining, which was not foreseen when the determinations for the current regulatory control period were developed.
23. Some of the key drivers of this trend include more energy-efficient technologies and appliances, smarter electricity networks driven by smart meters (which influence consumer consumption behaviour), and the emergence of alternative energy sources. These were foreshadowed in the AEMC's *Power of Choice Review*, which informed the rule change request to introduce competition to metering services in the NEM.
24. Consumer participation in shaping regulatory arrangements has gained greater importance in the distribution determination process in recent years, as reflected for example, by the AER's establishment of the Consumer Challenge Panel in 2013. Given this development, it would be reasonable to assume that the AER would be more interested in TasNetworks' engagements with its consumers and how it

⁶<http://vector.co.nz/documents/101943/488672/Vector+Submission+AER+Issues+Papers+on+Qld+and+SA+Proposals.pdf/dfcaf382-dd09-4b40-88d4-932532894ca9>

reflects consumers' views in its distribution proposal for the next regulatory control period.

Concluding comments

- 25. Please contact us if you have any questions or require further information.
- 26. We would be happy to meet with AER-Tasmania officials and staff to share our experience in the competitive New Zealand metering market, if required.

Yours sincerely

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

Ian Ferguson
Regulatory Policy Manager