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## **Submission on the Proposed Design for the New Rule Change Body**

### **Introduction**

1. This is Vector Limited's ("Vector")<sup>1</sup> submission on the Department of Finance's *Position paper: proposed design for the new rule change body*, dated 18 November 2015.
2. Vector is an active participant in consultations relating to electricity market reforms across Australia. These include Western Australia's ("WA") ongoing *Electricity Market Review* and the ongoing reforms in the National Electricity Market ("NEM"). We are particularly interested in the expansion of competition in metering and related services to small-to-medium businesses and residential consumers, which will take effect across the NEM on 1 December 2017.
3. We are currently engaging with potential customers in Australia's advanced metering market. Market conditions permitting, we expect to start deploying advanced meters in NSW in 2016.
4. Our main interest is therefore in Australia's emerging competitive metering market. This submission focuses on aspects of the ongoing reforms that would have a transformative impact on WA's metering market in the next few years.

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<sup>1</sup> Vector is one of New Zealand's largest listed companies and the country's largest electricity distribution business, 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.

On 9 November 2015, Vector announced that it has agreed to sell all of the shares in Vector Gas Limited, which has assets comprising gas transmission pipelines and gas distribution networks outside of Auckland. See <https://www.nzx.com/companies/VCT/announcements/273036>.

For more information on Vector, see [www.vector.co.nz](http://www.vector.co.nz) and [www.vectorams.com.au](http://www.vectorams.com.au).

5. We are also exploring opportunities in Australia's emerging battery storage market. We believe any regulation for energy storage solutions should be based on sound regulatory principles and practice, including providing the right incentives for investment and innovation.

### **AEMO as energy market operator in WA**

6. We welcome the recent announcement by the WA Minister for Energy, Hon Dr Mike Nahan, that the Australian Energy Market Operator ("AEMO") will undertake the role of independent energy market operator in WA.
7. While AEMO will perform its functions under WA's Wholesale Electricity Market ("WEM") Rules, we agree with AEMO CEO Matt Zema that:

...there are a number of benefits to be realised by energy market consumers and participants with the potential for common interfaces to be available to participants and investors in the...WEM and the...NEM.<sup>2</sup>

There are many opportunities that will arise as a result of this reform that will enable the two-way exposure and education of the different market environments. We feel this represents a significant step forward to creating a national energy market environment.<sup>3</sup>

8. A move towards greater consistency between the NEM and WEM is consistent with good regulatory practice. This would reduce costs for regulators and parties operating in both markets (by avoiding multiple transaction costs and confusion), and costs for consumers. In particular, the WEM can benefit from the lessons from the ongoing reforms in the NEM, many of which are in their advanced stages, including the expansion of competition in metering services.
9. Greater consistency across both markets will also contribute to removing barriers to market entry in the form of reduced costs of having to deal with and navigate different regulatory frameworks. In the WA metering market, this will incentivise investment and ensure the timely deployment of advanced meters to the state's consumers.

### **Design of the new rule change body**

10. We are generally happy with the Department of Finance's preference for a standalone decision-making body. This will ensure that a broader mix of expertise

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<sup>2</sup> See AEMO's downloadable media release, <http://www.aemo.com.au/News-and-Events/News/News/AEMO-undertakes-role-of-energy-market-operator-and-power-system-operator-in-Western-Australia>.

<sup>3</sup> *Ibid.*

is represented on the new body, and conflicts (or potential or perceived conflicts) of interest are avoided.

11. In addition, we support the AEMC being represented on the new rule change body, to promote the development of common interfaces between the NEM and WEM.

### **Membership of the new rule change body**

12. We reiterate the view we expressed in our previous submission to the Department of Finance on the proposed design of the rule change body, dated 14 August 2015, that its membership should be open to industry representatives or those with extensive industry knowledge and experience. Industry participants are well placed to determine the most cost-effective commercial solutions because of their direct exposure to market forces. The incentives on industry participants, who will bear the immediate costs of implementing and complying with the new market rules and regulations (and whose customers would eventually bear those costs), to make more efficient decisions are likely to be stronger than the incentives on regulators.
13. In particular, we recommend that the new rule change body include a member (or members) who have expertise in advanced metering or new technologies in the electricity market, and in-depth appreciation of their impact on the rapid evolution of this market. This is important, given the critical role of advanced metering in enabling efficiency improvements and innovation in WA's electricity sector.

### **Cost recovery**

14. While it is reasonable to expect that the proposed rule change body will result in no or little incremental cost, we suggest the adoption of a simple, easy to administer, and least-cost mechanism for recovering the costs of this body.
15. An approach that we believe can deliver the above outcomes is to charge costs on market participants who have the direct relationships with end consumers, i.e. predominantly retailers. As costs are eventually passed on to end consumers, this approach avoids the risk of the relevant parties 'double counting' inter-party charges or failing to pass on costs to market participants downstream. It further avoids the costs associated with transactions at multiple levels in the electricity supply chain.

### **Concluding comments**

16. We are happy to discuss with WA Government officials our experience with the ongoing reforms in the NEM, including governance issues relating to the transition to competitive arrangements, and our experience in New Zealand's competitive metering market.

17. Please contact me if you have any questions or require further information at +644 803 9051 or [Luz.Rose@vector.co.nz](mailto:Luz.Rose@vector.co.nz).

18. No part of this submission is confidential and we are happy for it to be made publicly available.

Yours sincerely

For and on behalf of Vector Limited

A handwritten signature in black ink, appearing to read 'Luz Rose', with a long, sweeping underline that extends to the right.

Luz Rose

**Senior Regulatory Specialist**