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Submission on the Electricity Market Review

Introduction

1. Vector Limited ("Vector") appreciates the opportunity to make this submission on the Western Australian Department of Finance's Discussion Paper, *Electricity Market Review*, dated 25 July 2014.
2. We welcome the review of the Western Australian electricity market ("the Review"), which aims to reduce costs of production and supply of electricity, reduce government exposure to energy market risks, and attract private sector participants to the electricity market to facilitate long-term stability and investment.
3. We support, in particular, the aspect of the Review that signals the introduction of competition in metering services, which we believe would benefit Western Australia's electricity consumers. We have seen the benefits a competitive metering market can deliver based on our experience in the New Zealand metering market.
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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Vector's businesses

6. 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.
7. Our metering business, Advanced Metering Services ("AMS"), is New Zealand's leading smart metering provider. AMS partners with other distribution companies nationwide to deliver smart meter services. We provide a range of services including meter data management, asset management, deployment, logistics management, integration and development services.
8. Vector is in a unique position as the only electricity distribution company in New Zealand that has also successfully contracted with retailers to roll out smart meters on a national basis. The main metering provider on Vector's network, however, is Metrix, another New Zealand provider. This reflects the competitive nature of the New Zealand metering market, and gives us the ability to see energy market issues from more than a single market dimension.

The benefits of a competitive metering market

9. Vector supports the Review's statement (page 41 of the Discussion Paper) that:

Providing a framework for competition in the provision of metering services has the potential to facilitate higher service quality and greater accountability. In addition to potentially providing meter services more cost efficiently than the incumbent, competition also provides greater opportunity for the varying needs of customers to be met by innovative metering solutions while also reducing the financial burden on government to fund metering infrastructure.

10. While Vector's metering operations are currently limited to New Zealand, we are investigating commercial opportunities in smart metering in the Western Australian market. Our submission is therefore focused on smart metering and on the following question in the Discussion Paper (page 42):

Should the network operator be subject to competition in the provision of metering and other services?

11. We consider the introduction of competition in the metering market to be in the long-term benefit of consumers. Electricity consumers in Western Australia would benefit through:

- the entry of multiple providers, which would exert downward pressure on prices over time. We note the rule change request by the Standing Council on Energy and Resources (now the Council of Australian Governments Energy Council), which is intended to provide competition in metering and data services in the National Electricity Market ("NEM").¹ This implies that metering will eventually be provided not only by distributors but also by retailers, meter owners, or even end users;
- better services, as competing metering service providers make more attractive offers to obtain the vote of consumers. Greater competition (i.e. less regulation) incentivises service providers to focus on improving services to their customers (that differentiate themselves from other providers) rather than focusing on regulators and regulatory compliance;
- greater choice to consumers, who now have the choice of alternative providers and multiple offerings. Consumers can choose a service that best suits their unique circumstances and gives them greater control over their energy expenditure. Consumers can now easily switch providers or 'vote with their feet', incentivising metering providers to improve their services to retain the loyalty of their customers or attract new customers;
- incentives to invest in the Western Australian metering market. A more open, competitive and dynamic market would attract interested parties who believe they can provide better offerings than those existing in the market. This would support the Review's objective of facilitating private sector investment; and
- product and service innovation. Metering markets internationally, including the New Zealand market, are undergoing rapid change due to the extensive deployment of smart meters which enable more innovative services. A competitive metering market allows the entry and application of various technologies that suit consumers' varying requirements. The benefits of smart meters are discussed in the next section.

12. We note that the Electricity Authority (the regulator of New Zealand's electricity market) has not found it necessary to regulate metering services because market arrangements are working effectively, concluding in 2012 that "the metering services market in New Zealand is workably competitive".² We believe this competitive environment has enabled the successful retailer-led rollout of smart meters in New Zealand over the past few years.

¹ <http://www.scer.gov.au/workstreams/energy-market-reform/demand-side-participation/smart-meters/metering-services/>

² Electricity Authority (2012). *Part 10 review: nomination of metering equipment provider and access to metering data, Decisions and reasons*, 13 April 2012, Wellington, section 7

The benefits of smart meters

13. The Australian Energy Market Commission (“AEMC”) and the Australian Energy Regulator (“AER”) are considering regulatory arrangements for metering services in the NEM for the next regulatory control period (2014/15/16 – 2018/19/20), taking the advent of smart meters into account.
14. The benefits of smart meters for industry and consumers are widely recognised, though there are differing views on the magnitude of their benefits and when these benefits will be realised. The benefits include, but are not limited to:

- *Energy efficiency gains*

As reported by the Energy Retailers Association of Australia, “[s]tudies have shown that smart meter programmes (with communications technology that provides clear feedback to consumers) have delivered savings of 5 to 15 per cent and sometimes even as high as 20 percent”.³

Time-of-use tariffs, enabled by smart meters, provide consumers with near real-time information about their electricity consumption. This allows consumers to alter their consumption patterns to reduce energy expenditure, for example, by consuming more electricity during off-peak times when it costs less.

- *Greater consumer choice*

Consumers have greater ability to control their consumption behaviour to suit their particular energy demands or to obtain better value for their money. This also facilitates ‘demand side participation’ in the Western Australian electricity market.

- *Reduced costs*

Smart meters enable meter providers to read consumers’ consumption remotely and in near real-time, reducing operational costs and billing inaccuracies which are all too common under periodic meter readings.

- *Network and public benefits*

Smart meters enable intelligent/smart grids by enabling two-way communication between the meter and the network’s central system. This provides distribution networks the capability to detect faults more accurately and in a timely manner. Quick outage recovery increases

³ http://eraa.com.au/wp-content/uploads/ERAA_WP1-Benefits-of-smart-meters.pdf, page 3

networks' ability to reduce repair costs or defer costly new network investment.

The increased ability of networks to respond quickly to outages or emergency callouts also has positive implications for public health and safety.

The competitive provision of smart meters

15. New Zealand is successfully deploying smart meters through market mechanisms. The provision of metering services is predominantly done through contractual arrangements between metering providers and retailers, who are responsible for measurement and provision of electricity consumption data. This market-led model has seen the rapid rollout of approximately 1.1 million smart meters nationwide over the past few years.
16. AMS, Vector's metering business, has installed more than 675,000 smart meters across New Zealand. We have done this with only approximately 1% customer refusal rate, 0.05% customer complaints, and no serious injuries.
17. The impact of the rollout in New Zealand on consumers has been 'benign', requiring only minimal engagement with them. Because the benefits to retailers outweigh the costs of the meters, consumers do not have to pay more for their smart meter. Retailers are able to address consumer concerns directly as they have a direct relationship with consumers. As such, New Zealand consumers have not suffered problems similar to those experienced by consumers in Victoria, where a mandated rollout resulted in cost blowouts and consumer backlash.
18. We believe the value of smart meters is best delivered under a competitive metering market. The discipline of the market enables multiple market participants with varying commercial propositions and deploying different technological innovations to come into play to deliver the best offerings for consumers. Those that offer inferior services risk losing customers and market share, and therefore would have strong incentives to improve their services.
19. In addition, the competitive provision of smart meters means that meter owners, rather than consumers, face investment risks and the risk of poor technology choice. Meter owners picking the wrong technology are likely to suffer from higher metering charges (to recoup higher costs) and would become less competitive, lose market share or exit the market.
20. While we recognise that transitions to new technologies can be challenging and are not costless, the New Zealand experience highlights that it is possible to have competitive market arrangements and positive business cases that meet stakeholder expectations all at the same time.

21. We therefore support a market-based approach to any proposal to introduce smart metering in Western Australia, preferably led by retailers. We do not believe a mandated rollout of smart meters would achieve the objectives of this Review.
22. A mandated rollout can result in higher costs for consumers and transfers technology risks from metering providers to consumers. This approach does not focus on or unlock the primary smart meter benefits available to retailers; hence, the costs are unnecessarily borne by consumers. Western Australia can learn from the hard lessons of the mandated smart meter rollout in Victoria, which we understand other states in the NEM are not keen to emulate.

Principles for the development of smart metering policy

23. We suggest that the Department of Finance or the appropriate regulator consider some of the principles below in the development of any smart metering policy for Western Australia. We believe that the Review's objectives are best promoted through a policy that:

- *Upholds competitive neutrality*

Smart metering services should be able to be provided by various parties, possibly including retailers, distributors, independent meter owners, or even end users.

- *Eliminates barriers to competition*

Mandating specific functions, or the addition of new functions to the meter, could be costly for consumers who may not need or want them.

Barriers could also be created by imposing costs on new entrants, for example, by charging "exit fees" for the replacement of legacy meters with smart meters. The issue of exit fees and cost recovery by distributors of the residual value of their legacy meters is being considered by the AEMC and AER as it applies to the NEM.

- *Avoids harm to consumers*

Consumers should not pay higher charges for smart meters. If any rollout is on a commercial/voluntary basis, and consumers do not have to pay higher charges for the upgrade or displacement of their meter, then issues around consumer acceptance should not be prominent as they have been in Victoria.

- Ensures technological neutrality

Market competition could be stifled by highly prescriptive technological standards that lock out from the market parties that do not use (or intend to use) the same standards. The Western Australian Government should avoid picking technological winners or prescribing smart metering functionalities. Picking technology winners is best left to those who take the investment risks, rather than consumers bearing the cost of poor technology choice by their providers or by the regulator.

We do not have any issues with the setting of minimum levels of metering service standards, which protect and benefit consumers. However, mandating the use of specific technological/technical standards or functionalities could result in inefficient outcomes that do not benefit anyone. For example, this could result in the provision of services that do not keep pace with technological developments or that consumers do not need or value.

We recommend that the appropriate regulator develop guidelines rather than mandate specific metering standards or functionalities. Meter functionality should be driven by retailer innovation, which increases competition for consumers. This, in turn, would deliver benefits to consumers in Western Australia through lower prices, greater choice and better services.

We note that efficiency improvements in the electricity sector can also be delivered by other devices that bypass the meter altogether, e.g. cloud services accessed via PCs, tablets or smartphones. While smart metering could provide energy management services, it is certainly not the only option. Prescribing technical standards could limit providers' flexibility in making the optimal technological choice.

Concluding comments

24. We note that Stage 2 of the Review includes options for reforming the regulatory framework in relation to metering. Given metering's central role as an enabling and critical infrastructure to improving efficiency and delivering innovative services in the electricity market, we believe it should be at the forefront of the reform process, not at the 'tail-end'. Or its consideration should at least be done parallel to the current Review process.
25. The introduction of competition in metering services and the accelerated rollout of smart meters in Western Australian implies that consumers will be able to realise the benefits that smart meters can deliver earlier than, or at least at the same time as, consumers in the NEM.

26. We believe that the reforms in relation to metering services should focus on ensuring that barriers to commercial rollout and competition in the provision of smart meters are minimised. As market competition develops in the electricity sector in Western Australia, including in metering services, the need for regulation should fall away.
27. Importantly, the reforms should ensure that consumers are not harmed during the transition process.
28. We are happy to discuss any aspect of this submission with the team conducting the Review.

Yours sincerely

A handwritten signature in blue ink that reads "R. Girdwood".

Bruce Girdwood
Group Manager Regulatory Affairs