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Submission on the Issues Paper on Proposed Revisions to the Western Power Network Access Arrangement – AA4

Introduction

1. This is Vector Limited's (Vector) submission on the Economic Regulation Authority's (ERA) *Issues Paper on Proposed Revisions to the Western Power Network Access Arrangement (2017/18 to 2021/22 – AA4)*, dated 31 October 2017.
2. Vector is one of New Zealand's largest listed companies and provides energy and technology services across the country. It is the largest provider of electricity and gas distribution network services in New Zealand, and the country's leading provider of advanced (or 'smart') metering solutions. It also provides fibre optic broadband communications network services, solar PV, energy storage, home energy solutions, and electric vehicle recharging services.
3. Our metering business (Vector Advanced Metering Services - VAMS) provides a cost effective end-to-end suite of energy metering and control services to energy retailers, distributors and consumers. We build and integrate end-to-end metering solutions for our customers through a range of technology partners.
4. VAMS have successfully deployed more than 1.2 million advanced meters in New Zealand with a negligible rate of safety incidents. The competitive, retailer-led model adopted for the New Zealand metering market has enabled the rapid deployment of advanced meters nationwide at no additional cost to consumers. The widespread deployment of advanced meters is further enabling electricity market participants to introduce new and innovative business models and services that benefit consumers.
5. VAMS are also an accredited Metering Coordinator, Metering Provider, and Metering Data Provider in Australia's National Electricity Market (NEM). We have started deploying advanced meters in New South Wales and Queensland, and are currently extending our service offerings to other NEM jurisdictions. We are also exploring opportunities in the Western Australian (WA) metering market.
6. As such, this submission is focused on advanced metering services. We would support a market-based approach to the rollout of advanced meters for small businesses and

residential consumers in WA. We believe the introduction of competition in this market will deliver significant benefits for electricity consumers in the state.

7. No part of this submission is confidential. Vector's contact person for this submission is:

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The proposed revisions to AA4

8. Electricity markets in Australia and globally are undergoing rapid evolution because of the emergence and declining costs of more distributed energy sources and new technology solutions. Technologies such as advanced meters are enabling the introduction of new business models that provide consumers greater control over their energy consumption.
9. In May this year, Minister for Energy Ben Wyatt reaffirmed the WA Government's determination to introduce Full Retail Contestability in the WA electricity market "sooner rather than later".¹ The Minister was reported to have indicated his desire to implement this reform by July 2019.²
10. Competition in metering and related services for small businesses and residential consumers commenced in the NEM (except in the state of Victoria) on 1 December 2017 under the *Power of Choice* reforms. The new NEM metering framework upholds the principle of competitive neutrality by allowing metering services to be provided not only by distributors but also by retailers, meter owners, end users, and other accredited market participants.
11. The above developments reflect rapidly evolving markets in electricity and related sectors. We encourage ERA to reflect in its draft decision on the *Proposed Revisions for AA4* how these unfolding developments could impact the WA electricity market within the AA4 regulatory period, including how advanced metering services could be provided.
12. In our view, the continued provision by Western Power of regulated metering services will limit policy options for competitive reforms in the WA metering market. We consider the competitive provision of metering services to be an important part of making the introduction of Full Retail Contestability more effective.
13. We set out below the benefits of advanced metering and why we believe these benefits are best delivered in a competitive market.

¹ <https://futureeffect.com.au/increased-competition-western-australias-energy-markets/>

² *Ibid.*

The benefits of advanced metering

14. The benefits of advanced metering are widely recognised and extensively discussed during the Australian Energy Market Commission's consultations on the *Competition in Metering Rule Change* under the *Power of Choice* reforms in the NEM.
15. The benefits of advanced metering include pricing transparency and innovation, remote metering benefits, improved and innovative services, and network benefits. We discuss these benefits below.

a. Pricing transparency and innovation

Advanced meters enable innovative tariffs and other pricing plans that provide better signals to consumers about the value of the electricity they are consuming. Better pricing signals enable consumers to make more informed consumption and investment decisions. For example, consumers can defer or reduce consumption at times of the day when electricity costs more, or decide to use or install their own energy source, e.g. solar PV or residential battery.

Innovative pricing arrangements that provide rewards for responding to demand spikes, e.g. "peak tariff rebates", further incentivise demand responses in the future.

b. Remote metering benefits

Advanced meters enable service providers to read and record consumption information remotely and in near real-time, reducing inaccuracies which are common under periodic meter readings. More accurate billing reduces the number of consumer complaints and the magnitude of those complaints. This enhances consumer confidence in the electricity market, promoting their engagement in this market.

Furthermore, remote meter reading reduces or avoids the cost of physical meter reading, consequently reducing cost for consumers.

c. Improved and innovative services

New services enabled by advanced meters include, among others, peer-to-peer trading, smart home energy management, smart appliance control, electric vehicle charge scheduling, load shed participation, and generation and battery aggregation.

The availability of a wide range of more customised services facilitates demand side participation and optionality, promoting consumer choice and greater efficiency in electricity consumption.

d. Network benefits

Advanced metering data allows distribution network operators to better understand how their customers (including distributed generators) are connected to their network, and their consumption patterns. This enables networks to develop products and tariffs

that provide their customers the right incentives to consume electricity more efficiently, 'shaving off' peaks in demand that drive network investment decisions.

Advanced metering data also enables networks to detect faults more quickly, or before they occur, and which customers are affected. This allows them to respond to outages in a more targeted and timely manner.

The above capabilities, enabled by advanced meters, allow network businesses to postpone, if not avoid, the need for costly new network investment or expansion.

A competitive market will not stop these network benefits from being unlocked; on the contrary, they are likely to be enhanced as incentives to provide better services are strengthened from competitive pressures in the market.

The benefits of a competitive metering market

16. We believe the value of advanced meters is best delivered through a competitive metering market. Electricity consumers would benefit from the competitive delivery of metering services through the following: improved and more innovative services from multiple providers, greater pricing transparency, greater choice for consumers, investment and technology risks residing with investors (not consumers), reduced costs from greater alignment with the NEM metering framework, and increased investment incentives.
17. We discuss these benefits below.

- a. **Improved and more innovative services from multiple providers**

The entry of more service providers into the electricity market incentivises those providers to focus on delivering improved or differentiated services to their customers (and potential customers), rather than focusing on regulatory compliance.

Service providers whose offerings do not provide significant value risk losing customers and market share, and could exit the market. They would therefore have strong incentives to keep competing and innovating to offer compelling products and services to their customers.

- b. **Greater pricing transparency**

In a competitive metering market, the price of metering services is not 'bundled' with the price of natural monopoly distribution services, as is currently the case in WA under regulated arrangements. Under competitive arrangements, specific charges apply to metering services instead of general network charges.

A competitive metering market therefore promotes pricing transparency (more accurately reflecting the value of the service to consumers) and reduce the risk of cross-subsidies from natural monopoly services. It provides more accurate signals to

parties wishing to enter this market to provide better services to consumers, and to consumers wishing to avail of advanced metering services.

c. Greater choice for consumers

In a competitive market, where there are alternative service providers with multiple offerings, consumers can choose the services that best suit their circumstances. They can switch providers or 'vote with their feet' if they are not satisfied with their provider. This provides strong incentives for providers to improve their services to retain the loyalty of their customers and attract new ones.

The presence of competing providers incentivises the provision of a wider range of services and the application of technologies that cater to the market's varying requirements. This expands the market and potentially create new ones (e.g. markets for services that may not use the meter), providing greater choice for consumers.

A competitive market provides stronger incentives for innovation, which cannot be purposefully designed. It is important that incentives for innovation are in place to ensure the continued delivery of consumer benefits over time, i.e. promote dynamic efficiency.

d. Investment and technology risks residing with investors, not consumers

We believe the benefits of advanced metering are best delivered through a policy of technology neutrality, underpinned by a competitive market. Picking technology winners or prescribing technical functionalities is best left to those who take investment risks. This protects consumers (or taxpayers) from bearing the cost of poor technology choice by their service provider or the regulator.

We urge ERA to support technology neutrality and refrain from highly prescriptive policies that are 'fragile by design', e.g. technological standards that could lock out from the market parties that do not use the same standards, limiting competition and innovation.

In addition, mandating technical specifications increases compliance costs for market participants and monitoring/audit costs for regulators.

e. Reduced costs from greater alignment with the NEM metering framework

A competitive metering market in WA will closely align it with the NEM metering framework, reducing transaction and operating costs for parties operating (or intending to operate) across jurisdictions, and ultimately for their customers. It would be highly inefficient and costly for parties to build processes to navigate jurisdictional differences, and for regulators to monitor different regulatory/compliance regimes.

Facilitating greater alignment with the NEM competitive metering framework is consistent with good regulatory practice. It means that the “minimum services specification” for metering that ensures NEM consumers benefit from advanced metering features in a consistent manner will similarly benefit WA consumers. It also reduces confusion for service providers and consumers across Australia.

f. Increased investment incentives

A more open and competitive WA metering market with lower transaction costs would attract more parties who are willing to provide differentiated or better offerings than those currently available under regulated arrangements. This facilitates private sector investment, creating an environment that enables innovation to flourish and commercial solutions to be developed.

A competitive metering market will remove the need for the WA public sector to fund the deployment of advanced meters and shift it to the private sector. Promoting private sector investment is particularly relevant in the context of the recently concluded *Service Priority Review* which aims to drive efficiency in the WA public sector, among other objectives.

Upcoming electricity market reform

18. The Minister of Energy’s announcement of introducing Full Retail Contestability in the electricity market “sooner rather than later” implies that this policy is likely to be established within the AA4 period. It is reasonable to assume that it would ‘capture’ the introduction of competition in metering and related services, similar to what is being implemented under the *Power of Choice* reforms in the NEM.
19. Given the Minister’s announcement, we **recommend** that ERA re-consider the proposed rollout of advanced meters under regulated terms, as set out in the *Proposed Revisions for AA4*, until the WA Government announces the details of its policy introducing Full Retail Contestability. Specifically, any proposals for new and replacement meters should be held in abeyance until there is greater clarity and certainty from the WA Government on its policy intention. This would avoid pre-mature deployment, or deployment under a regulatory framework that may not be durable, and its associated costs. It would also avoid conflicting signals for potential market entrants and investors about the policy direction for the WA metering market.
20. Should the ERA still decide to approve the new and replacement metering proposals submitted by Western Power for AA4, we **recommend** that a different pricing approach be adopted to signal the possibility of advanced metering services being provided competitively in the near future. We believe a more appropriate approach is to remove metering services from Western Power’s regulatory asset base, i.e. place metering services in a separate asset base, akin to the metering asset base (MAB) created by the Australian Energy Regulator (AER) in anticipation of the introduction of competition in the NEM metering market. The

AER unbundled metering services from NEM distributors' Standard Control Services to Alternative Control Services and placed these services under the newly created MAB.

21. The removal of metering services from the regulatory asset base means the cost of providing these services will be recovered (or mostly recovered) from those who use these services and not 'smeared' across the network customer base. This promotes pricing transparency and market efficiency by removing/minimising cross-subsidies ('user pays') and pricing distortions in the market.
22. We encourage ERA to signal and provide as much information as possible in its draft AA4 decision about any upcoming electricity market reform that could potentially be introduced within the AA4 period. A 'no surprises' approach for industry participants and those wishing to enter the WA electricity market will ensure that the transition to any new arrangements will minimise cost and disruption, and deliver benefits to WA consumers earlier rather than later.

Concluding comments

23. As indicated above, we believe that WA consumers will benefit most from advanced metering services that are delivered competitively. We therefore encourage ERA to make policy recommendations on metering that closely align with the NEM competitive metering framework. This will ensure that policy options promoting market competition and innovation that benefit consumers can be developed and implemented.
24. We are happy to discuss with ERA officials our insights from our ongoing rollout of advanced meters in the NEM, and our extensive experience in the competitive New Zealand metering market.

Yours sincerely

For and on behalf of Vector Limited

Richard Sharp

Head of Regulatory and Pricing