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Submission on the Draft Decision on Western Power's Proposed Revisions to its Access Arrangement - AA4

Introduction

1. This is Vector Limited's (Vector) submission on the Economic Regulation Authority's (the Authority) *Draft Decision on Proposed Revisions to the Access Arrangement for the Western Power Network* (Draft Decision on AA4), dated 2 May 2018.
2. In Vector's view, the Authority must not approve Western Power's proposed advanced metering project unless and until Western Power has complied with the Regulatory Test in Chapter 9 of the *Electricity Networks Access Code 2004* (WA) (the Access Code). The Regulatory Test requires a detailed consideration of alternative options, which we consider should include an assessment of third party ownership of meters and third party metering services provision to Western Power.
3. We discuss our view below.
4. No part of this submission is confidential. Vector's contact person for this consultation is:

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The Draft Decision on AA4

5. Vector commends the Authority on the aspects of its Draft Decision on AA4 that will improve the economic efficiency of the market for metering services in the South West interconnected system (SWIS). These include the unbundling of metering services into separate reference services, which may be paired with other non-metering reference services.
6. Vector's advanced metering business (Vector Advanced Metering Services - VAMS) has extensive experience in deploying advanced meters in the competitive New Zealand metering market, and has started deploying in Australia's National Electricity Market (NEM), where competition in metering was introduced on 1 December 2017.
7. In our experience, a competitive regulatory framework for metering services provides choice and better outcomes for consumers and other network users. We understand that the Authority does not have the power to effect a competitive metering framework under the Access Code.

8. We acknowledge that the Authority's review of Western Power's Model Service Level Agreement under the *Electricity Industry (Metering) Code 2012 (WA)* (Metering Code) has been 'parked' for the time being while the Authority undertakes its functions under the Access Code with respect to AA4. However, we commend the Authority in relation to those aspects of its draft decision that promote user choice and price transparency, which we noted to be lacking in the SWIS in our submission on the Authority's Issues Paper on AA4.¹
9. For example, the decision to unbundle metering services from bundled reference services into separate reference services will increase price transparency and reduce cross subsidisation.
10. Further, the Authority's refusal to approve mandated time-of-use tariffs emphasises the importance of user choice and negotiated outcomes under the Access Code.

The Regulatory Test

11. Vector has had the opportunity to review Synergy's public submission in relation to price control and agrees with Synergy that Western Power must, in respect of its \$177 million advanced meter project, comply with the requirements of the Regulatory Test under Chapter 9 of the Access Code.²
12. In the absence of satisfying the requirements of Chapter 9 of the Access Code, it is our view that it is not open to the Authority to approve the advanced meter project.
13. The practical effect of applying the Regulatory Test to the advanced meter project, as required under the Access Code, will be to ensure that Western Power considers a range of alternatives to this project.
14. We consider that alternatives for consideration should include:
 - third party ownership of meters in the SWIS;
 - third party ownership of associated communications networks; and
 - third party provision of metering services.
15. Third party ownership of the above assets and third party service provision mean that services can be procured by Western Power without extensive capital investment by Western Power. This also avoids "locking-in" a particular technology platform that effectively "locks-out" innovation, market competition, and dynamic efficiency in the provision of metering services in the SWIS.
16. We note that third party ownership of meters and associated communications networks is, at present, not allowed under the Metering Code but that the Authority can exempt parties from the application of that provision of the Metering Code by means of a variation to the licences of licenced parties, including Western Power.
17. We consider that third party ownership of meters and communications network, and third party provision of metering services, are also consistent with the objectives of the Access Code, and the alternative "lock-up" proposed by Western Power is not.

What is the regulatory test?

18. The Regulatory Test is an assessment under chapter 9 of the Access Code, which provides that a service provider must not commit to a major augmentation before the Authority

1 <https://www.erawa.com.au/cproot/18537/2/Vector%20Ltd.pdf>

2 Synergy – Submission 5 – Price Control was published by the Authority on its website on 14 December 2017.

determines that the applicable test for application during an access arrangement revision process or independently of that process (whichever is applicable) is satisfied.³

19. The aim of the Regulatory Test is to determine whether a proposed major augmentation⁴ to a covered network⁵ maximises the net benefit⁶ to those who generate, transport, and consume electricity after considering alternative options.⁷

Is Western Power’s advanced meter project a proposed “major augmentation”?

20. In Vector’s view, the \$177 million cost of Western Power’s advanced meter project is a single proposed major augmentation.
21. An “augmentation” is defined in the Access Code to mean, in relation to a covered network, an increase in the capability of the covered network to provide covered services.
22. Advanced meters that are communications capable combined with a communications network enable remote connection/disconnection, remote reads, remote load limitation, and direct load control. In our view, such meters can be said to increase the capability of the covered network to provide covered services, whereas meters that only measure electricity flow cannot.
23. A “major augmentation” is an augmentation for which the new facilities investment for the shared assets exceed \$10 million (CPI adjusted) for assets that are, or are to be, part of the distribution system, and \$30 million (CPI adjusted) where the network assets comprising the augmentation are, or are to be, part of a transmission system or both a distribution system and a transmission system.
24. In our view, these matters are satisfied in respect of the advanced meter project because they comprise a single augmentation, rather than a collection of smaller augmentations.

Net benefit

25. In essence, the Regulatory Test requires a detailed consideration of the “net benefit after considering alternative options”. There should be a net benefit (measured in present value terms to the extent that it is possible to do so) to those who generate, transport, and consume electricity in the covered network and any interconnected system, having regard to all reasonable alternative options, including the likelihood of each alternative option proceeding.⁸
26. Western Power should consider all options that will achieve the same, or a similar outcome as the proposed major augmentation, including (but not limited to):
 - how different network projects could be combined;

3 Clause 9.2 of the Access Code.

4 Means an augmentation for which the new facilities investment for the shared assets (a) exceeds \$10 million (CPI adjusted), where the network assets comprising the augmentation are, or are to be, part of a distribution system; and (b) exceeds \$30 million (CPI adjusted), where the network assets comprising the augmentation are, or are to be, part of a transmission system or both a distribution system and a transmission system.

5 Means a network that is covered.

6 Means a net benefit (measured in present value terms to the extent that it is possible to do so) to those who generate, transport and consume electricity in (as the case may be) (a) the covered network, or (b) the covered network and any interconnected system.

7 Means alternatives to part or all of the major augmentation, including demand-side management and generation solutions (such as distributed generation), either instead of or in combination with network augmentation.

8 Section 9.4 of the Access Code.

- how non-network projects could be combined with network projects;
- options that would result in possible changes in consumer behaviour, possibly without the need for a major augmentation; and
- any other methods that may produce substantially different costs and benefits.

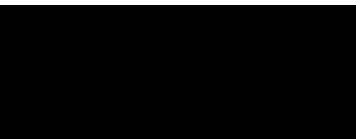
Third party owned assets and service provision

27. The Metering Code provides that meters and associated communications infrastructure on the Western Power network may only be owned by Western Power.
28. However, in Vector's view:
 - Western Power may apply to the Authority for the Authority to revise Western Power's distribution licence in order to dis-apply those provisions of the Metering Code; and
 - the Authority may make such a revision in response to an application by Western Power or on its own initiative.
29. In this way, consent to effect third party owned metering and communications is principally a regulatory approval required in order to effect a particular alternative option that should be given due consideration pursuant to the Regulatory Test.
30. The Regulatory Test therefore also requires Western Power to consider the benefits of third party owned meters, communications networks, and related matters as well as the opportunity costs of "locking-out" third party ownership of meters and associated communications networks and third party providers of metering services.

Concluding comments

31. We believe that in the interest of consumers in the SWIS, the Authority must not approve Western Power's proposed advanced metering project unless and until Western Power has complied with the Regulatory Test in Chapter 9 of the Access Code. A detailed consideration of alternative options under the Regulatory Test should include an assessment of third party ownership of meters and third party metering services provision to Western Power.
32. We are happy to discuss with the Authority any aspects of this submission and/or share some insights from our deployment of advanced meters in the competitive New Zealand and NEM metering markets.

Yours sincerely
For and on behalf of Vector Limited



Richard Sharp
Head of Regulatory and Pricing