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Dear Mark

Submission on the Draft Determination on DMO Prices for 2020-21

Introduction

1. This is Vector Limited's (Vector) submission on the Australian Energy Regulator's (AER) *Draft Determination - Default Market Offer Prices 2020-21*, dated 10 February 2020.
2. Vector is one of New Zealand's largest-listed companies and provides energy and technology services across the country, with a vision of *creating a new energy future*. It is the largest provider of electricity and gas distribution network services in New Zealand, and the country's leading provider of advanced (smart) metering solutions. It also provides fibre optic broadband communications network services, solar PV, energy storage, home energy management solutions, and electric vehicle recharging services.
3. Our advanced metering business (Vector Metering) provides a cost-effective end-to-end suite of energy metering and control services to energy retailers, distributors and consumers. Vector Metering is a registered Metering Coordinator and an accredited Metering Provider and Metering Data Provider in the National Electricity Market (NEM). We are deploying advanced meters in the NEM and are working with other industry participants on new technology demand side initiatives.
4. In this submission, we propose that the AER include an advanced metering cost component in the "retail costs" of the retail electricity Default Market Offer (DMO), and in forecasting changes to input costs for the DMO for 2020-21 (DMO 2). We believe this will help address emerging barriers to retailer-led deployments of advanced meters, which could have a chilling effect on future investment in advanced metering and stifle innovation in DMO areas. It will help ensure that the benefits of advanced meters are optimised and realised by consumers in a timely manner. We set out our reasons below.
5. We believe our proposal supports the objectives of the Power of Choice reforms in the NEM and will support the impending implementation of the Consumer Data Right in the energy sector.
6. No part of this submission is confidential. Vector's contact person for this submission is:

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DMO 2 and ensuring the consumer benefits of advanced meters are delivered in a timely manner

7. Vector proposes that the AER include an advanced metering cost component in the retail costs of the DMO, and in forecasting changes to input costs in its final determination of DMO 2 for the following reasons:
 - a. Advanced meters enable efficiency gains and innovation that benefit consumers. Including advanced meters in DMO 2 would reflect transitional cost effects that, if ignored, could create barriers in their mass deployment and stifle innovation.
 - b. The realisation and optimisation of consumer benefits from advanced meters are constrained by additional regulatory and safety compliance costs recently imposed upon retailers, and retailers' limited ability to recover those costs.
 - c. Including a metering cost component in DMO 2 would help remove emerging barriers to retailer-led deployments of advanced meters in a timely manner.
8. We discuss our reasons below.

Advanced meters enable efficiency gains and innovation that benefit consumers. Including advanced meters in DMO 2 would reflect transitional cost effects that, if ignored, could create barriers in their mass deployment and stifle innovation.

9. The benefits of advanced meters are now well recognised, having been discussed extensively by the Australian Energy Market Commission (AEMC) and industry participants during the stakeholder consultations leading to the introduction of the *Competition in Metering Rule* in the NEM which commenced on 1 December 2017.
10. The Queensland Competition Authority (QCA) identifies and describes the efficiency and environmental benefits of advanced meters that benefit consumers (including those in hardship), distribution network service providers (DNSPs), and retailers (comments in “[...]” are ours in addition to the QCA’s):¹
 - *Better information to help customers manage electricity bills* – The more detailed data provided by advanced digital meters can help customers understand, and manage, their electricity usage. Retailers report that the additional data helps them identify, and assist, customers who may be experiencing financial hardship and reduce the costs of bad debt.
 - *More options to reduce electricity costs* – Advanced digital meters give networks, and retailers, greater ability to offer electricity [prices and services that enable significant consumer choice. For example,] this gives customers more opportunities to save on their electricity bills by moving their usage to cheaper off-peak times [or select payment periods to fit their budgets, such as weekly payments].
 - *Lower network costs* – The incentives to reduce electricity use at peak times is expected to reduce peak demand on the network. Over time, reduced peak demand is expected to reduce the need to augment the network, lowering network costs. These lower network costs will be passed through to consumers in the form of lower regulated network prices than would have otherwise been the case.

¹ <https://www.qca.org.au/wp-content/uploads/2019/08/ministerial-advice-benefits-of-advanced-digital-metering.pdf>, pages iii and iv

- *More accurate bills* – The remote reading capabilities of advanced digital meters will significantly reduce the number of electricity bills issued based on estimated electricity usage. This reduces [the incidence of customer bill shocks and therefore] the number of complaints retailers have to address, as well as reducing the number of billing issues that need to be investigated by [Ombudsman and dispute resolution schemes].
 - *Cost savings from special meter reads* – The remote reading capabilities of advanced digital meters mean that it is no longer necessary to have a manual meter read performed when a customer moves out of a property, or wishes to transfer to a new retailer.
 - *Ability to change retailers more quickly* – As advanced digital meters are read remotely, customers no longer need to wait for a quarterly meter read to transfer retailers and take advantage of a better electricity offer. This means that customers can switch to a cheaper offer, and start saving money on electricity, sooner.
 - *Remote energisation* – Advanced digital meters can energise, and de-energise, premises remotely. This is both faster, cheaper and delivers a better standard of service to customers. [It removes the need for a person to access customers' properties, for example, for health and safety reasons].
 - *Improved service delivery by networks* – Advanced digital meters are capable of providing additional information about the electricity supply to the premises. This allows networks to [better manage the increasing penetration of distributed energy resources in their low voltage network], detect faults more quickly and accurately, and provide better service to customers.
 - *Reduced electricity theft* – Advanced digital meters improve the ability to identify cases where customers bypass electricity meters or otherwise obtain electricity illegally.
 - *Reduced greenhouse gas emissions* – The introduction of advanced digital meters is expected to reduce electricity usage, which results in a commensurate reduction in greenhouse gas emissions.
11. Importantly, and in addition to the above benefits, advanced meters enable product and service innovation and the development of new business models that allow service providers to deliver new and innovative services to the market. This promotes greater choice for consumers and greater control over their use and consumption of energy, e.g. it allows 'prosumers' to sell electricity that they generate to the grid or to other consumers.
 12. Broadly, advanced meters will enable the electricity sector to reap the benefits from increased digitalisation and facilitate the sector's transition into the digital age.
 13. For the above benefits to be realised and optimised, it is important that advanced meters are deployed widely in the DMO areas, and in a timely manner. We discuss below why including an advanced metering cost component in DMO 2 would help achieve that.

The realisation and optimisation of consumer benefits from advanced meters are constrained by additional regulatory and safety compliance costs recently imposed upon retailers, and retailers' limited ability to recover those costs.

14. We propose the inclusion of an advanced metering cost component in DMO 2 to address emerging barriers that could have a chilling effect on future investment in advanced meters, hence, on innovation.

15. Our proposal is primarily driven by the following significant cost increases associated with the deployment of advanced meters:

a. Commencement of the National Electricity Amendment (Metering Installation Timeframes) Rule 2018 and National Energy Retail Amendment (Metering Installation Timeframes) Rule 2018

These rule changes, which commenced on 1 February 2019, “require retailers to provide a meter for a new connection or perform a simple meter exchange by a date agreed with the customer. If no timing can be agreed, the retailer will need to install the meter within six business days at a new connection, or within 15 business days if the customer has requested a simple meter exchange”.

While the new mandatory installation timeframes are expected to improve consumer experience, these nonetheless impose additional costs on retailers which we consider to be material.

There are factors that are currently beyond the control of retailers and their appointed Metering Coordinators such as the latter’s inability to interrupt power supply for the purpose of installing a meter at shared fuse sites. This task must be performed by the DNSP’s technician which requires coordination between the three parties, making compliance with the new mandated timeframes challenging and costly.

b. Increasing costs required to remediate unsafe electrical meter boards and connections

Retailers will have to incur additional costs to remediate unsafe sites so that meters can be installed safely. This applies to both legacy and advanced meters.

Enabling retailers to recover remediation costs for unsafe sites up front will benefit consumers, who will otherwise experience delay(s) in the installation of an advanced meter at their premise, or not having one installed for as long as the site remains unsafe.

16. The above new/additional costs could result in higher metering charges for advanced meters relative to legacy meters. These costs will increasingly become material as more consumers switch to advanced meters.

17. High penetration of advanced meters is required to enable innovation, but their deployment may not initially be cost neutral. Retailers’ inability or limited ability to recover increasing initial costs is having a dampening impact on their ability to deploy advanced meters.

18. Including an advanced metering cost component in the DMO would allow retailers to pass any material new and additional costs through the DMO 2 price to address cost recovery uncertainty. It would help ensure that there are sufficient incentives for retailers to keep deploying advanced meters, so consumer benefits can be delivered in a timely manner.

19. In addition, the above proposal will promote pricing transparency, enabling consumers to make more informed decisions around which entities to purchase electricity from or sell it to.

20. Advanced metering deployments should not be seen only as costs but as innovation-enabling investments, the benefits of which would offset initial marginal costs. We note that consumers reap some of the benefits of advanced meters immediately after their installation, e.g. more accurate billing or having the ability to participate in existing demand response programmes.

21. The New Zealand Commerce Commission recognises the primary importance of considering innovation in assessing regulatory trade-offs:

...where a tension exists between short-term allocative efficiency and long-term dynamic efficiency, the Commission will give greater weight to the latter...**Ongoing innovation and efficient investment over time can deliver significant long-term benefits to end-users, and the adverse consequences of deterring or delaying such investment may be substantial.**²

[emphasis added]

Including a metering cost component in DMO 2 would help remove emerging barriers to retailer-led deployments of advanced meters in a timely manner.

22. There is increasing demand for advanced meters, including if not particularly from solar customers. This is notably evidenced by complaints from consumers around delays in the installation of their advanced meter, which triggered the AEMC to mandate the metering installation timeframes mentioned above.
23. However, achieving widespread deployment of advanced meters requires retailer-led mass deployments (that retailers' individual customers can opt out of), rather than installing advanced meters on a 'piecemeal' basis. For example, the successful deployment of advanced meters in New Zealand was almost completely driven by pro-active, retailer-led deployments, coordinated by metering providers to achieve economies of scale in the long-term interest of consumers.
24. Retailer reticence to keep deploying, driven by reduced investment incentives, would delay the delivery of the benefits of advanced meters to consumers. Delays in deployment will not only stifle innovation now but will affect the industry's ability to innovate over time, the cost of which could be high.
25. The AER itself, referring to the introduction of competitive advanced metering in the NEM, has stated that:

...on balance, we prefer to err on the side of faster entry rather than too slow entry...We make this decision on the basis that it is the clear intent of policy makers to see a competitive metering market develop in the NEM. We also consider that it will help further the NEO [National Electricity Objective] because advanced metering solutions facilitate the move towards cost reflective tariffs which are fundamental to achieve efficient use of and investment in distribution networks.³

26. We believe that reflecting advanced metering costs in DMO 2 will help ensure that incentives for investment and innovation are strengthened, rather than weakened. It supports the objectives of the Power of Choice reforms to empower consumers through greater choice and control over how they consume and use energy.
27. More broadly, our proposal will support the sharing and use/re-use of data in the sector and the wider economy through the Consumer Data Right which will be implemented in the energy sector, following its implementation in the banking sector. This will enable innovation that benefits even more consumers.

² Commerce Commission (2009). *Discussion Paper on Guide to Regulatory Decision Making for the Telecommunications Sector*, Wellington.

³ <http://vectorams.com.au/documents/597574/598208/Vector+Submission+Residual+Capital+Cost+Recovery.pdf/360e258c-f516-472e-81a8-84cac007a734>, page 3

Concluding comment

28. We are happy to provide further information, including on a confidential basis, to support our proposal or discuss any aspects of this submission with the AER.

Yours sincerely



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Vector Metering