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By email: DMO@aer.gov.au

Dear Ms Jolly

Submission on the DMO 4 Draft Determination

Introduction

1. This is Vector Limited's (Vector) submission on the Australian Energy Regulator's *Default market offer prices 2022-23 – Draft determination*, dated February 2022.
2. Vector's Australian and New Zealand advanced metering business – Vector Metering – is an accredited Metering Provider and Metering Data Provider, and a registered Metering Coordinator, in Australia's National Electricity Market (NEM) and the equivalent in New Zealand. Vector Metering provides a cost-effective end-to-end suite of energy metering and control services to energy retailers, distributors and consumers.
3. As a metering service provider in the NEM, we focus our submission on the AER's draft determination to reflect higher metering costs incurred by retailers for advanced meters in the Default Market Offer price for 2022-23 (DMO 4).

Advanced Meter Allowance

4. Vector welcomes the AER's draft determination to include the average annual advanced meter cost per customer in the retail operating cost component of DMO 4. The benefits of advanced meters have been discussed extensively, and the need to accelerate their rollout widely acknowledged, by regulators and industry participants to enable ongoing and impending market reforms in the NEM.
5. More specifically, advanced metering supports the DMO objective of "maintain[ing] incentives for competition, innovation and investment by retailers, and incentives for consumers to engage in the market".¹ Advanced meters provide the opportunity for retailers to offer innovative pricing and enable consumers to make clear choices and take actions about how and when they use and generate electricity.
6. We broadly agree with the key reasons behind the AER's draft determination regarding advanced metering costs, which include the following:
 - the available information suggests that the cost to retailers is material and will increase
 - there is a risk that retailers may be disincentivised from rolling out advanced meters if they believe the DMO price does not allow them to recover costs – this would not be consistent with the DMO's objective of maintaining incentives for innovation

¹ Page 1 of the Draft Determination

- a sizeable proportion (1 in 5) [of] standing offer customers already have advanced meters, and it is reasonable for the DMO price cap to reflect the costs to serve this group.²
7. In relation to the second point above, and as described in a previous Vector submission, dated 19 November 2020, on the AER's position paper on DMO 3:
- Under current market conditions, the advanced meter is materially more expensive than the avoided cost of the legacy meter being replaced. A key factor driving this is the removal of upfront fees for a meter installation that the customer was previously required to pay. In many cases, these fees were significant and outrightly recovered the costs of the metering asset. These costs are no longer charged directly to the customer and are now recovered by the retailer over a longer period via annual metering charges. This makes it difficult for retailers to make a business case for replacing legacy meters with advanced meters. As a result, retailers are only deploying advanced meters where the National Electricity Rules require them to do so, i.e. in the case of New Connections, Adds & Alts, and meter malfunctions.³
8. We support the AER's intention of using its approach for advanced metering costs, as proposed in the DMO 4 draft determination, for each annual DMO determination.⁴
9. We further support the AER continuing to monitor the costs of advanced metering and to consider new information on these costs annually to ensure the impact of any regulatory changes are reflected in its approach.⁵

AEMC Metering Review

10. Vector agrees with the AER that there is no need to delay taking advanced meter costs into account until the Australian Energy Market Commission has concluded its *Review of the regulatory framework for metering services* (AEMC Metering Review).⁶ We agree that advanced metering costs are material and it is reasonable to include these costs as part of the retail component of DMO 4, which commences on 1 July 2022.
11. We support the AER's intention to monitor the progress of the AEMC Metering Review. The AEMC is scheduled to release a final report on the Review by the end of this year (2022).
12. We encourage the AER, as it makes its final DMO 4 determination, to coordinate closely with the AEMC as the AEMC re-commences its Review on 29 April 2022. This will ensure any significant implications of the DMO 4 on the options being considered to accelerate the rollout of smart meters in the NEM can be duly considered by the AEMC and/or referred to the Review Reference Group and relevant Sub-Group(s), if necessary.

Concluding comments

13. We are happy to discuss our submission and other relevant advanced metering issues with the AER, if necessary. Please contact Paul Greenwood (Industry Development Australia - Vector Metering) at Paul.Greenwood@vectormetering.com or 0404 046 613 in the first instance.

² Page 38 of the Draft Determination

³ https://vectormetering.com/assets/docs/market-engagement/AER_Position_Paper_DMO_3.pdf, paragraph 23

⁴ Page 38 of the Draft Determination

⁵ Page 39 of the Draft Determination

⁶ *Ibid.*

14. No part of this submission is confidential, and we are happy for the AER to publish it in its entirety.

Yours sincerely



Dr James Tipping
GM Market Strategy/Regulation