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Mr Warwick Anderson
General Manager, Network Regulation
Australian Energy Regulator
Canberra ACT

By email: SAelectricity2015@aer.gov.au, QLDelectricity2015@aer.gov.au

Dear Mr Anderson

**Submission on the Proposed Framework and Approach for Electricity
Distributors in South Australia and Queensland - Regulatory
Control Period Commencing 1 July 2015**

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on two preliminary position papers released by the Australian Energy Regulator ("AER") in December 2013:
 - *Framework and approach for SA Power Networks, Regulatory control period commencing 1 July 2015; and*
 - *Framework and approach for Energex and Ergon Energy, Regulatory control period commencing 1 July 2015.*
2. Vector is one of New Zealand's largest listed companies. We provide services in the New Zealand electricity, gas and telecommunications sectors. Our metering business, Advanced Metering Services ("AMS"), is New Zealand's leading smart meter provider.
3. While our operations are currently limited to New Zealand, we are investigating commercial opportunities in the South Australian and Queensland smart metering markets. Our submission is therefore focused on the AER's preliminary views on the classification of metering services in these markets for the 2015-2020 regulatory period.
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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Standard control to alternative control

6. Vector agrees with the AER's preliminary proposal to re-classify Type 6 metering services in South Australia and Types 5 and 6 metering services in Queensland from "standard control services" to "alternative control services" for the regulatory period 2015-2020. We note that, in taking this position, the AER anticipates that the "provision of these services is likely to become open to more competition in the near future".¹
7. The unbundling of Types 5 and 6 metering services from standard control would mean specific service charges (user pays approach) would apply instead of general network charges. Vector considers this would help improve pricing transparency and reduce, but not eliminate, the risk of cross subsidies from natural monopoly services (lines) to contestable or potentially competitive services (metering), resulting in more efficient pricing. It would provide more accurate signals to retailers wishing to enter the smart metering market to provide better services to their customers.
8. We consider that the AER's F&As in respect of Types 5 and 6 metering services support the Australian government's approach to achieving a competitive electricity market. Its market-led approach is embodied in policy settings, including:
- the National Electricity Objective, which aims "to promote efficient investment in, and efficient operation of, electricity services for the long term interests of consumers of electricity";
 - the Australian Energy Market Commission's Power of Choice review, which sets out "recommendations for supporting market conditions that facilitate efficient demand side participation" in the electricity market;² and
 - the Standing Council on Energy and Resources' rule change request, intended to provide competition in metering and data services. This would pave the way for the provision of metering services not only by distributors but also by retailers, independent meter owners or even end users.

¹ AER 2013, Preliminary positions paper, Framework and approach for Energex and Ergon Energy, Regulatory control period commencing 1 July 2015, page 11

² AEMC 2012, Power of choice review – giving consumers options in the way they use electricity, Final Report, 30 November 2012, Sydney, Executive Summary, page i

9. Vector agrees with this market-led approach. Our view is supported by our experience in the New Zealand metering market, where the government and the Electricity Authority (the electricity market regulator) have not found it necessary to regulate metering as market arrangements are working effectively. The New Zealand model has led to the rapid deployment of approximately 1.1 million smart meters (55% penetration) over the past few years.
10. We consider that the AER is taking the right direction in unbundling Types 5 and 6 metering services from standard control in South Australia and Queensland. The regulator should focus on identifying, removing and avoiding unnecessary barriers to market entry and competition. As a competitive market is developed in Australia, the need for greater regulation should fall away.
11. Ultimately, Vector believes metering services should be removed from price regulation altogether.

Depreciation

12. Both preliminary F&As appear to be silent on the financial treatment of the newly classified metering services, including how assets will be depreciated.
13. In New Zealand, smart metering is not a regulated activity. Smart meters are being deployed rapidly and we are required to certify our assets to the electricity regulator by 2015.
14. Vector is accelerating the depreciation of its asset base in respect of its legacy metering assets. We are three-quarters of the way through the rollout of approximately 840,000 smart meters that we have been contracted to supply to New Zealand retailers.
15. The AER should consider approaches for accelerating the depreciation of Types 5 and 6 metering assets. This would reduce exit fees and remove a significant barrier to the rollout of smart meters.
16. We are happy to discuss with AER officials our experience in the competitive New Zealand smart metering market, including how we depreciate our metering asset base, paving the way for the rollout of smart meters.

Yours sincerely



Bruce Girdwood
Group Manager Regulatory Affairs