

30 January 2015



Vector Limited

101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland 1149, New Zealand
www.vector.co.nz

Corporate Telephone
+64-9-978 7788

Corporate Facsimile
+64-9-978 7799

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

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

Dear Mr Roberts

**Submission on the AER's Issues Papers on Queensland and SA
Electricity Distributors' Regulatory Proposals
for 2015-16 to 2019-20**

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Australian Energy Regulator's ("AER") Issues Papers on the regulatory proposals of electricity distributors in Queensland (Energex and Ergon) and South Australia (SA Power Networks) for the 2015-16 to 2019-20 regulatory control period ("next regulatory control period").
2. As a New Zealand provider of metering services, among other energy and telecommunications services,¹ we are exploring commercial opportunities in the Australian smart metering market. As such, we focus our submission on regulatory proposals relevant to the metering market that are of particular interest or concern to us, and where we can make recommendations. These include proposals regarding:
 - exit fees and the recovery of residual capital costs and administration fees;
 - smart ready metering policies; and
 - load control.

¹ Vector is one of New Zealand's largest listed companies and the country's largest electricity distribution network, supplying the Auckland region. Vector also provides gas distribution network services in more than 20 towns and cities in New Zealand's North Island. It further provides gas supply and treatment, electricity and gas metering services, and fibre optic broadband communication networks in Auckland and Wellington.

3. No part of this submission is confidential and we are happy for it to be made publicly available.
4. Vector's contact person for this submission is:

Luz Rose
Senior Regulatory Analyst
Luz.Rose@vector.co.nz
+644 803 9051

Vector supports competition and innovation in metering services

5. Vector supports, in principle, the Australian Government's market-led approach to achieving its efficiency and competition objectives in the metering market and the electricity sector. We believe a market-led approach, driven by retailers, provides the right incentives for competition, innovation and investment that benefit electricity consumers.² This approach would support the change request by the Council of Australian Governments – Energy Council to amend the National Electricity Rules ("NER") to expand competition in metering services in the National Electricity Market ("NEM").
6. Our view is consistently reflected in our submissions to the AER on the resets for NEM electricity distributors for the next regulatory control period, and submissions to other Australian regulators. We are reliably informed by our experience in the New Zealand metering market, which follows a market-led model that has enabled the successful deployment of approximately 1.2 million smart meters nationwide (60% market penetration) over the past few years. The New Zealand metering market provides compelling evidence that consumer acceptance of smart meters can be achieved in a timely manner through commercial solutions, without intrusive regulation or consumer protest.
7. Consistent with our view, we do not support the Queensland and South Australian ("SA") distributors' proposals to charge "exit fees" for the displacement of type 5 and 6 meters ("legacy meters") because it creates a barrier to market entry, which stifles competition. However, we support the recovery of the efficient residual capital costs of these meters, and potentially administration costs, through distribution use-of-system ("DUoS") charges.
8. We do not support any policy that requires the installation of 'smart ready' meters. This type of policy would inhibit market competition and innovation, and increase costs without overriding consumer benefits.
9. We discuss our positions on these matters below.

² We particularly welcome the NSW Government's decision to pursue a "market-driven" rollout of smart meters, http://www.resourcesandenergy.nsw.gov.au/_data/assets/pdf_file/0008/536696/NSW-Smart-Meter-Task-Force-Report.pdf. This is a significant departure from the Victorian model of mandated rollout, which resulted in cost blowouts and consumer backlash.

10. With the exception of exit fees (comprising residual capital costs and potentially, administration fees), we support the unbundling of other type 5 and 6 metering services, including metering provision, maintenance, reading, and data services. This would enable a more efficient electricity market by facilitating cost-reflective pricing and minimising cross subsidies.
11. We are making this submission in the context of ongoing policy reform in the NEM metering services market. While it pertains to the regulatory proposals of the Queensland and SA distributors for the next regulatory control period, we make numerous references to the AER's draft decisions, released in November 2014, on the regulatory proposals submitted by the New South Wales ("NSW") and Australian Capital Territory ("ACT") distributors. It is reasonable to expect that these draft decisions would signal the direction the AER would take in making its draft decisions on the regulatory proposals of the Queensland and SA distributors.

Exit fees do not promote competition and innovation

12. Consistent with our support for greater competition in metering services, we do not support measures that create barriers to market entry, which stifle competition and innovation. We therefore do not support the Queensland and SA distributors' proposals to impose exit fees for the replacement of existing meters.
13. As discussed in our previous submissions to the AER and the Australian Energy Market Commission ("AEMC"), exit fees are not the appropriate mechanism because they do not meet regulatory principles,³ and importantly, do not promote competition. As such, they are likely to prevent the emergence of competitive metering markets in Queensland and SA, or their emergence in a timely manner. We note that these fees do not have any basis or precedence in similar industries.
14. The proposed exit fees would create a significant barrier to market entry. Potential market entrants would face these fees, which actively disincentivise investment. Exit fees would not create a level and competitive playing field as successive entrants do not face the same costs and can easily under-price the first movers.
15. We previously noted to the AER that transitions to more competitive arrangements have been undertaken in similar markets without resorting to exit fees. These include 1) the introduction of competitive electricity retail market in Australia,

³ Decisions on the recovery of investment costs should minimise market inefficiencies and distortions, provide the right incentives for market entry and investment, and promote consumers' interest or avoid harm to consumers. We recommended that to minimise market inefficiencies and distortions, any proposal should 1) not distort efficient investment, 2) minimise investors' perception of regulatory risk, and 3) not lead to stranded investment.

<http://vector.co.nz/documents/101943/167718/Vector+Submission+Rule+Change+Expanding+Competition+in+Metering.pdf/b17aaa3e-1170-4d6f-91f0-b805c606e206>, page 15

<http://vector.co.nz/documents/101943/167718/Vector+Submission+on+AER+Issues+Paper+on+NSW+Distributors%27%20Proposals.pdf/eea6970e-409e-41a1-8eb9-c79270c2dd19>, pages 3-4

- 2) the transition to competitive metering for large customers, also in Australia, and
 3) we understand, for some environmentally friendly power generation and small generators overseas.⁴ There may be an equity issue if large consumers were able to make the transition to a competitive metering market without exit fees but small consumers (or their metering providers) did face these fees.⁵
16. If the AER does not want to frustrate the transition to a competitive metering market, and the deployment of smart meters in Queensland and SA, it should not approve the proposed exit fees. It should consider other approaches that do not require exit fees that disincentivise new entrants, particularly first-movers, and deprive consumers in these states the benefits of market competition.
17. While we oppose exit fees, we recognise, however, that the transition to newer technologies such as smart metering is not costless and is in the long-term interest of consumers. As provided for in Rule 7.3A(g) of the NER, we agree that electricity distributors in the NEM should be able to recover the costs of their efficient regulated investment, but exit fees are not the appropriate mechanism for doing so.

Residual capital costs should be classified as Standard Control Services

18. Our previous submissions to the AER and AEMC proposed alternative approaches that would not involve exit fees but would allow cost recovery by distributors without stifling market entry and competition, and without harming electricity consumers.⁶ Our preferred option is a combination of an appropriate unbundled metering fee and the recovery of the remaining values of legacy metering assets in the Regulatory Asset Base (as Standard Control Services). This means that these values will not be imposed as exit fees on customers switching to a smart meter and alternative metering provider.
19. We therefore welcome and strongly support the AER's draft decisions on the regulatory proposals of NSW and ACT distributors removing exit fees for the next regulatory control period. For instance, the AER's draft decision on Ausgrid's regulatory proposal ("Draft Decision") states:

The NSW distributors proposed exit fees that would allow them to recover costs associated with metering assets made redundant when a customer switches to an alternative metering provider...we have not accepted this approach. The NEL and

⁴<http://vector.co.nz/documents/101943/167718/Vector+Submission+on+AER+Issues+Paper+on+NSW+Distributors%27%20Proposals.pdf/eea6970e-409e-41a1-8eb9-c79270c2dd19>, page 5

⁵ *Ibid.*

⁶ We identified six options: A) no sunk cost recovery, B) exit fee mechanism, C) appropriate unbundled metering service fee, D) enable asset value to be recovered as part of standard control service, E) combination of options C and D, and F) capping exit fees.

<http://vector.co.nz/documents/101943/167718/Vector+Submission+on+AER+Issues+Paper+on+NSW+Distributors%27%20Proposals.pdf/eea6970e-409e-41a1-8eb9-c79270c2dd19>, pages 6-8

<http://vector.co.nz/documents/101943/167718/Vector+Submission+on+AER+Issues+Paper+on+NSW+Distributors%27%20Proposals.pdf/b17aaa3e-1170-4d6f-91f0-b805c606e206>, pages 15-16

NER require us to have regard to the development of competition in deciding appropriate service classification...As argued in submissions, an exit fee may impede the development of competition in the provision of metering services.⁷

20. As stated above, while we object to exit fees, we believe the transition to new technologies should allow the recovery of efficient regulated investment. We therefore also support the AER's Draft Decision classifying the residual capital costs of legacy meters as Standard Control Services, enabling them to be recovered from the general network customer base, i.e. from all customers.

21. The AER's Draft Decision states that:

...[its] alternative is to classify residual capital costs (the capital costs the customer would have paid through annual charges had they remained a regulated metering customer) as a standard control service and recover these through network tariffs.⁸

...With the opening of competition in metering services, we have determined that where a customer switches service providers during the 2015-19 regulatory control period, we will allow the distribution business to continue to recover residual capital costs through an annual addition to DUOS charges.⁹

...If a customer chooses to switch to an unregulated metering provider, the remaining portion of residual capital costs attributable to that customer that risk becoming stranded is moved back into the standard control regulatory asset base.¹⁰

22. We agree that the AER's proposed approach for NSW and ACT would not only allow the recovery of efficient investment, but also enable the timely introduction of smart metering for the benefit of consumers. According to the Draft Decision:

...Any concern with residual cross subsidies is mitigated by the fact that there are likely to be collective benefits from switching to advanced metering technologies such as better demand side participation which may help lower overall network costs for all customers.¹¹

...on balance, we prefer to err on the side of faster entry rather than too low entry (the risk if we accept Ausgrid's proposal to charge a high exit fee). 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 because advanced metering solutions facilitate the move towards cost

⁷<http://www.aer.gov.au/sites/default/files/AER%20%E2%80%93%20Draft%20Decision%20Ausgrid%20distribution%20determination%20%E2%80%93%20Overview%20%E2%80%93%20November%202014.pdf>, page 61

⁸<http://www.aer.gov.au/sites/default/files/AER%20%E2%80%93%20Draft%20decision%20Ausgrid%20distribution%20determination%20%E2%80%93%20Attachment%2016%20%E2%80%93%20Alternative%20control%20services%20%E2%80%93%20November%202014.pdf>, page 16-29

⁹*Ibid.*, page 16-44

¹⁰*Ibid.*, page 16-46

¹¹*Ibid.*, page 16-47

reflective tariffs which are fundamental to achieve efficient use of and investment in distribution networks.¹²

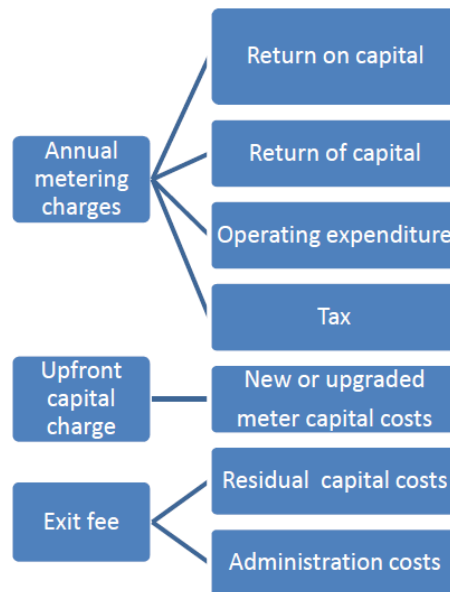
23. We therefore **recommend** that the AER remove exit fees for the displacement of legacy meters in Queensland and SA. This would enable a level playing field for existing and potential market participants, facilitate market entry, and ensure the timely emergence of competition in the metering markets of these states.
24. We further **recommend** that the AER classify residual capital costs of legacy metering assets as Standard Control Services and recover these costs through DUoS charges, consistent with its draft decisions for NSW and ACT. This would allow distributors to recover the efficient cost of past investments approved by the regulator without creating barriers to market entry that stifle market competition and innovation. Market participants would also benefit from regulatory consistency across the NEM in the form of reduced transaction and search costs.

Administration fees should also be classified as Standard Control Services

25. In addition to the residual capital costs of legacy metering assets, the regulatory proposals of NSW and ACT distributors also proposed “administration charges” or “administration fees” associated with the displacement of legacy meters. We do not support the imposition of administration fees (or a “transfer fee” as a component of an exit fee) in Queensland and SA.
26. Similar to residual capital costs, administration fees will be borne by new entrants or alternative providers. They are effectively a ‘switching cost’ imposed on non-incumbent parties, which create first-mover disadvantage and a barrier to market entry. Administration fees give distributors undue cost advantage by virtue of their incumbency and not as a result of greater efficiency or improvement in customer services.
27. As the figure from the Ausgrid regulatory proposal (which is similarly reflected in the proposals of Endeavour Energy and Essential Energy) below clearly shows, both residual capital costs and administration fees are linked to and are integral components of the same transaction – that of switching a customer to another metering provider. But for the displacement of the legacy meter, these costs would not be incurred. Both costs should therefore be treated in the same manner, i.e. administration costs should not be imposed where exit fees are not.

¹²<http://www.aer.gov.au/sites/default/files/AER%20%E2%80%93%20Draft%20decision%20Ausgrid%20distribution%20determination%20%E2%80%93%20Attachment%2016%20%E2%80%93%20Alternative%20control%20services%20%E2%80%93%20November%202014.pdf>, page 16-47

Figure 166.3 Ausgrid's proposed structure of metering tariffs



28. We therefore agree with the AER's Draft Decision:

...not [to] accept the administrative charges proposed by the NSW distributors that are associated with customers switching to an alternative metering provider.¹³

...While we accept in principle that Ausgrid should recover incremental administration costs through an exit fee, we do not consider that Ausgrid demonstrated they will face incremental administration costs. As such, we do not accept that an exit fee should apply.¹⁴

29. The AER's Draft Decision, however, states that it:

...consider[s] it prudent to indicate how [it] would classify such a service in the event that the NSW distributors are able to provide sufficient justification leading into our final decision. These costs, if substantiated, would be directly attributable to a customer seeking to switch meter providers. On this basis, we are satisfied the service 'meter transfers' should be classified as an alternative control service.¹⁵

30. With respect, we disagree with the AER's draft decision to classify administration costs as Alternative Control Services, subject to justification by distributors of these costs. While we support efforts to improve the ability of these services to become contestable, re-classifying them under Alternative Control in these

¹³<http://www.aer.gov.au/sites/default/files/AER%20%E2%80%93%20Draft%20Decision%20Ausgrid%20distribution%20determination%20%E2%80%93%20Overview%20%E2%80%93%20November%202014.pdf>, page 60

¹⁴<http://www.aer.gov.au/sites/default/files/AER%20%E2%80%93%20Draft%20decision%20Ausgrid%20distribution%20determination%20%E2%80%93%20Attachment%2016%20%E2%80%93%20Alternative%20control%20services%20%E2%80%93%20November%202014.pdf>, page 16-29

¹⁵<http://www.aer.gov.au/sites/default/files/AER%20%E2%80%93%20Draft%20Decision%20Ausgrid%20distribution%20determination%20%E2%80%93%20Overview%20%E2%80%93%20November%202014.pdf>, pages 60-61

circumstances does not promote contestability as it signals the cost of this component of the exit fee and discourages anyone else bar the incumbent from upgrading to a smart meter.

31. Administration fees are borne by non-incumbent providers and could create a barrier to market entry. While the amounts may not be 'material' for a single customer, or in the context of a distributor's overall cost levels, they are in aggregate likely to be material for smaller providers. For example, Ausgrid, Endeavour Energy, and Essential Energy propose to recover AU \$59.8 million,¹⁶ \$46.3 million,¹⁷ and \$46.1 million¹⁸ in administration fees, respectively, if all of their customers were to exit within the next regulatory control period. These amounts are, by any measure, not immaterial.

32. The AER opines:

Ausgrid proposed administrative costs were calculated as estimated time taken multiplied by a labour rate—but this approach does not demonstrate that such costs are incremental. To demonstrate that Ausgrid will face incremental costs, we consider that it would have to show a reasonable forecast of additional staff they expect to hire over the regulatory period to process customer transfers.

For example, the proposed administration charge would recover \$59.8 million if all customers were to exit. If all customers left in a five year period, this would imply that Ausgrid would have to hire an additional 65 dedicated full time staff per year to handle customer transfers to substantiate its proposed costs. This seems **implausible given the relatively simple administrative task involved to process a customer exiting.**

Indeed, Ausgrid forecast metering customer numbers to grow overall over the period so it is not evident that they expect many customers to churn in the upcoming period. As such, **it may be possible that current levels of administrative staff have enough capacity to perform this additional administrative task without the business incurring further costs.**¹⁹

[emphasis added]

¹⁶<http://www.aer.gov.au/sites/default/files/AER%20E2%80%9320Draft%20decision%20Ausgrid%20distribution%20determination%20E2%80%9320Attachment%2016%20E2%80%9320%20Alternative%20control%20services%20E2%80%9320November%202014.pdf>, page 16-48

¹⁷<https://www.aer.gov.au/sites/default/files/AER%20E2%80%9320Draft%20decision%20Endeavour%20Energy%20distribution%20determination%20E2%80%9320Attachment%2016%20E2%80%9320%20Alternative%20control%20services%20E2%80%9320November%202014.pdf>, page 16-48

¹⁸<https://www.aer.gov.au/sites/default/files/AER%20E2%80%9320Draft%20decision%20Essential%20Energy%20distribution%20determination%20E2%80%9320Attachment%2016%20E2%80%9320%20Alternative%20control%20services%20E2%80%9320November%202014.pdf>, page 16-47

¹⁹<http://www.aer.gov.au/sites/default/files/AER%20E2%80%9320Draft%20decision%20Ausgrid%20distribution%20determination%20E2%80%9320Attachment%2016%20E2%80%9320%20Alternative%20control%20services%20E2%80%9320November%202014.pdf>, page 16-48

33. We are inclined to agree with the AER on this matter. We note that Ergon proposes an administration fee that implies a rate of AU \$86 per hour²⁰ for the “simple administrative task involved to process a customer exiting”, as described above by the AER. This rate seems excessive.
34. Also, we note that in the New Zealand metering market, a similar transaction is likely to involve a retailer-to-retailer process, with the transfer eventually reflected in the electricity registry being managed by the Electricity Authority (the regulator of the electricity sector).
35. In the event, however, that the AER decide to approve the imposition of administration costs, we propose that these costs be classified as Standard Control Services. Like residual capital costs, administration fees are incurred as part of the reform process that is intended to promote competition in the long-term interest of consumers. It is appropriate for these costs to be recovered from the network customer base.
36. We **recommend** that the AER remove administration fees for the next regulatory period in Queensland and SA. Administration fees impose additional costs on potential entrants and will create a barrier to market entry, inhibiting market competition that the policy reform is aiming to achieve.
37. We further **recommend** that should the AER allow the recovery of administration fees by Queensland and SA distributors, it should classify administration fees as Standard Control Services, to be recovered in a similar manner to residual capital costs. Both fees are incurred in relation to the reform process and should be classified and applied consistently across NEM states, including Queensland and SA.

‘Smart ready’ metering policies are unnecessary and undesirable

38. The Queensland and SA distributors appear to have based their proposals on the assumption that the installation of ‘smart ready’ meters will be required as a step towards the deployment of (fully) smart meters.
39. While we support accelerating the installation of smart meters so consumers can benefit from new and innovative services these meters enable, we do not support any policy requiring the installation of smart ready meters by default where a new replacement meter is required.
40. As expressed in our submission to SA’s Department for Manufacturing, Innovation, Trade, Resources and Energy (“DMITRE”) on its smart metering policy proposal for the state, released in January 2014, we consider any policy requiring the

²⁰ <https://www.aer.gov.au/sites/default/files/Ergon%20Energy%20-%202005.03.01%20Default%20Metering%20Services%20Summary%20-%20October%202014.pdf>, page 32. Ergon proposes an administration fee of \$50.53 for 2015/16, which is calculated based on 35 minutes of an administration employee’s time. This implies an hourly cost of \$86 for administration employees.

installation of smart ready meters to be unnecessary and undesirable.²¹ This policy would lead to unintended outcomes that would not support the Government's objective of expanding competition in metering services in Queensland and SA.

'Smart ready' meters do not support market competition and innovation

41. A policy for smart ready meters effectively mandates a particular type of metering technology, i.e. the technology preferred by the incumbent provider or that is compatible with the smart ready meter the incumbent chooses. The same technology may not be preferred by other providers intending to enter the Queensland and SA smart metering markets. This effectively creates a barrier to market entry, stifling competition and the introduction of innovative services in these markets.
42. Requiring the installation of smart ready meters would lock providers into a particular technology path. It would inhibit their ability to adopt the most cost-effective technology that would meet consumer demand without compromising service quality.
43. Further, the installation of smart ready meters would not provide metering provider(s) with the right or strongest incentives to introduce new and innovative services to consumers. It would incentivise them to find the best smart ready meter rather than find the best technology or combination of technologies and services their customers are willing to pay for. This could frustrate the policy objective of enabling more cost-reflective pricing that promotes demand side participation, as envisaged in the Power of Choice Review.

'Smart ready' meters disincentivise investment

44. A smart ready metering policy could undermine investment. Under this type of policy, such as the one proposed by DMITRE in SA, smart ready meters will be deployed only when new and replacement meters are required and will only be upgraded to be fully smart at the request of individual customers.
45. It is not clear how many consumers, if any, will actively choose to upgrade their meters to be fully smart. This uncertainty may reduce the amount of investment (potential) market participants make in smart metering technology in Queensland and SA. Even where it is in consumers' interest to upgrade to a fully smart meter, the transaction costs of upgrading (i.e. scheduling the upgrade and, in some cases, arranging for access to the property) may deter consumers from doing this. This could further delay the deployment of smart meters, and consumers would not benefit in a timely manner from the more efficient and innovative services enabled by smart meters.

²¹<http://vector.co.nz/documents/101943/167718/Vector+Submission+SA+Policy+for+New+and+Replacement+Meters.pdf/04f9768c-c5c1-40c8-8435-c053d049ac8e>

'Smart ready' meters do not reduce, but instead raise, costs

46. Market intervention through a smart ready metering policy is unnecessary and will (for reasons discussed below) increase the cost of eventual rollout of smart meters in Queensland and SA. We note that New Zealand smart meter providers are successfully deploying smart meters without this type of policy. New Zealand's market-led and retailer-driven model imposes no extra cost on consumers. New Zealand retailers are funding the rollout in order to reduce costs associated with meter reading and to provide improved services to consumers.
47. Our experience in New Zealand shows that a deployment is most efficient and cheapest when it is done *en masse* across an area. This approach requires installers to visit a street only once, rather than visiting it separately every time a meter needs to be replaced. Deploying at times of replacement greatly advantages the incumbent meter provider and significantly reduces the chance of developing competitive metering markets in Queensland and SA.
48. As stated above, we believe that exit fees should be avoided altogether, but that recovery of efficient investment should be allowed by classifying the residual capital costs (and possibly administration fees) as Standard Control Services. A way to keep the residual costs low would be to enable Queensland and SA's electricity distributors to deploy low-cost traditional meters until such time that competition in metering emerges in these states. That would keep the costs of metering that distributors need to recover at a lower level than if they were required to upgrade their meters to be smart ready.
49. Where an alternative provider uses a different technology to the smart ready meter, the residual capital cost of the smart ready meter is likely to be recovered should the meter be displaced through competition. This would raise costs for consumers. Such higher costs should only be incurred if it is clear they will deliver net benefits.
50. Installing smart ready meters will not reduce the cost of any further smart meter rollout as it is generally just as cost-effective to replace the entire meter as it is to install a communications pack. Also, the mandated installation of smart meters could undermine any efficiencies that could potentially be achieved from the growing convergence between the meter and the communications system.
51. SA Power Networks intends to address power quality issues caused by new technologies (particularly solar) by using smart ready meters to monitor voltage level across its network. It acknowledges that a cheaper solution than smart ready meters would be to just perform peak demand recording, but argued that these meters would be displaced by fully smart meters, so smart ready is the cheaper option.
52. SA Power Networks estimates that the cost of smart ready meters is now only slightly higher than the cost of basic accumulation meters. We do not agree with

this estimate. Our market experience indicates that smart ready meters would cost at least twice as much as basic meters. Smart ready meters would be priced in the range of AU \$60-80 per meter for volumes above 100,000, while basic meters would cost approximately AU \$30 per meter. We note that network monitoring could be achieved through low-cost three phase sensors on the network (at transformer, mid-feeder, and end feeder).

53. Smart ready meters are almost certain to be displaced so a cost-minimising investment strategy for SA Power Networks would be to either wait for smart meters to be rolled out and obtain peak demand data, or if that is not acceptable from a network security standpoint, find cheaper meters that have capacity recording capability.
54. Ergon's focus seems to be on leading a targeted rollout of smart meters to obtain network benefits early. We disagree and consider that a mass rollout of fully smart meters would be more cost-effective and deliver a broader suite of benefits. A targeted rollout would mean there are some areas with (more costly) smart meters that then either need to be displaced or integrated with other metering systems used by Metering Coordinators ("MCs") or retailers, creating more costs than is necessary.
55. In addition, deployment over a subset of the network is unlikely to achieve the level of cost efficiency that can be achieved from a retailer rollout. Any network benefits from a targeted rollout would be smaller in magnitude (compared to the benefits from a mass deployment) and will become available post mass deployment.

'Smart ready' meters do not offer overriding consumer benefits

56. A purported benefit of smart ready meters is that they would measure electricity consumption on a half-hourly basis, enabling innovative tariffs to be offered. However, SA Power Networks recognises that smart ready meters cannot be read remotely. SA Power Networks therefore proposes to introduce monthly meter readings, which they recognise is very costly.²² Again, such costs should only be incurred if it is clear that net benefits will be realised.
57. If a full rollout of fully smart meters could be achieved in SA, this would be able to deliver the necessary tariff benefits to SA Power Networks at a lower cost. There may be a slight delay in the start of this rollout, and the test to be considered is whether the cost of that delay outweighs the additional meter reading costs plus the cost of deploying smart ready meters that will probably become obsolete very rapidly.

²²http://www.sapowernetworks.com.au/centric/corporate/corporate_information/regulatory_proposal_2015_2020/regulatory_proposal_attachments.jsp, SA Power Networks: Tariff and Metering Business Case, pages 30-31

58. Also, one of the benefits from time-of-use tariffs is that they provide incentives for consumers to adjust their consumption in response to real-time or near real-time price signals. Consumers may be less likely to respond to increased price signals if they only see the effect of the price signal on their bill after the relevant consumption period.
59. Smart ready meters are part of an older, modular technology, compared with fully smart meters which are more integrated with the telecommunications system. Deploying smart ready meters is deploying 'outdated' technology.
60. The benefits of investment in smart ready meters could be captured by a competitive rollout of smart meters without the additional cost of smart ready meters also being incurred.

'Smart ready' meters could raise accountability issues under the new rules

61. Under the AEMC's proposed rule change, the MC will have obligations and accountabilities for smart metering and associated services. To meet these obligations, the elected Meter Provider ("MP") will be responsible for the installation and maintenance of the metering installation. In the circumstance where the distributor has installed a smart ready meter, there will be significant challenges for MPs to meet their obligations without replacing that meter.
62. Smart ready meters require more than simply plugging in a communications module. For instance, how would the elected MP:
- maintain and upgrade the meter firmware and functionality to ensure the meter delivers the required functionality to the Australian Energy Market Operator (AEMO) and the registered participants with an interest in that site;
 - keep the metering installation secure, when it does not have control over meter passwords; and
 - meet its service level obligations when it does not have full control over the end-to-end metering systems?
63. The elected MP will require full control over the metering installation to meet its obligations. If the MP will try and use the distributor's existing meter, it will not have the required control over the end-to-end metering system. The elected MP may not have the systems to manage the smart ready meters. For example, the MP may use meters from a different meter vendor.
64. We understand the new metering roles associated with the ongoing reform are being finalised by the AEMC. We simply illustrate here how requiring the installation of smart ready meters as an 'interim step' to smart metering could create transitional challenges and impose additional costs, which we consider to be unnecessary.

Regulations should support an environment conducive to the development of commercial solutions

65. We believe that rather than prescribing specific technology paths, regulators should focus on identifying and removing barriers to market entry and competition, and support an environment that would enable commercial solutions to be developed. The regulators' role is to create conditions so that the metering market can deliver solutions that consumers want. This can be done by making metering markets in Queensland and SA fully competitive, enabling retailers and other market participants in these states to freely contract with smart meter providers that can deliver products and services that meet consumers' needs.
66. The market can only afford to invest once in the new capability offered by smart meters; making that investment should be left to the competitive market.
67. We therefore **recommend** that the AER not promote policies or support proposals for the Queensland and SA metering markets where the installation of smart ready meters is required.

Load control

68. We believe that distributors have no automatic right to control load. It is consumers' load that is being turned off, and consumers should have the right to contract with any party they choose to control their load. Or they may wish not to contract at all and have a supply that is not controlled. Consumers should be able to contract with the distributor, the retailer, or a third party (for example, a load aggregator).
69. Where a party other than the distributor controls load, there should be an ability for the distributor to contract with this party to manage any network issues, for example, controlling restoration.
70. We note that in the New Zealand market, distributors do not have the exclusive right to control load and consumers can contract with whoever they want. We are not aware of any network management issues caused by this arrangement.
71. We **recommend** that the AER not limit the rights of consumers to contract with the party of their choosing to control their load.

Concluding comments

72. To recap, we **recommend** that, in relation to the Queensland and SA distributors' regulatory proposals for the next regulatory control period, the AER:
 - remove exit fees to promote competition in the Queensland and SA metering markets, and its emergence in a timely manner;

- classify the residual capital costs of legacy metering investment as Standard Control Services and recover these costs through DUoS charges, consistent with its draft decisions for NSW and ACT. This would ensure that distributors are able to recover the efficient cost of past investments approved by the regulator without creating barriers to market entry and stifling competition and innovation in metering services;
- remove the proposed administration fees, consistent with its draft decisions for NSW and ACT. As a component of exit fees, administration fees impose additional costs on potential entrants and create a barrier to market entry, inhibiting competition;
- should it approve any administration fees, classify these fees as Standard Control Services, to be recovered in a similar manner as residual capital costs. Both costs are incurred in relation to the reform process and should be classified and applied consistently across NEM states;
- not promote policies or support proposals for the Queensland and SA metering markets where the installation of smart ready meters is required. This type of policy will inhibit competition and innovation, and impose costs without overriding benefits to consumers; and
- not limit the rights of consumers to contract with the party of their choosing to control their load.

73. We would like to request the opportunity to meet with AER officials to discuss our submission, particularly the above recommendations. We would like to discuss why they are critical in ensuring barriers to market entry are minimised, if not removed. This would ensure the emergence of a competitive metering market and the timely deployment of smart meters for the benefit of Queensland and SA consumers.

74. Please contact us anytime if you have any questions or require further information.

Yours sincerely



Ian Ferguson
Regulatory Policy Manager