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Submission on the Proposed Multiple Trading Relationships Rule Change

Introduction

1. This is Vector Limited's ("Vector")¹ submission on the Australian Energy Market Commission's ("AEMC") consultation paper, dated 30 July 2015, on the Multiple Trading Relationships Rule Change ("MTR Rule Change") proposed by the Australian Energy Market Operator ("AEMO").
2. Vector is one of New Zealand's largest listed companies and provides metering services across the country, among other energy and telecommunications services. We are seeking commercial opportunities in Australia's advanced metering market. We are an active participant in the consultations on the ongoing reforms in the National Electricity Market ("NEM").
3. In our view, the MTR Rule Change would only add to the complexities of the reform process without overriding benefits for industry and consumers. As such, we **recommend** that AEMC defer its consideration of this proposal and revisit it, as necessary, when it reviews the metering market three years following the implementation of competitive metering arrangements. We discuss our views below.
4. No part of this submission is confidential and we are happy for it to be made publicly available.

MTR an unnecessary distraction from fundamental market reform

5. We are making this submission in the context of the ongoing reforms in the NEM, including:
 - AEMC's Draft Rule Change expanding competition in metering and related services to small-to-medium businesses and residential consumers

¹ For more information on Vector, see www.vector.co.nz and <http://vectorams.com.au/>.

(“Competition in Metering Rule Change” for the purposes of this submission), which is intended to facilitate the deployment of advanced meters across the NEM;

- AEMC’s review seeking to align network and retail tariff structures for small consumers; and
- the Australian Energy Regulator’s (“AER”) determination processes for electricity distribution across NEM jurisdictions, which propose to unbundle metering services from Distribution Use of System (“DUoS”) charges for the next regulatory control period.

6. We also note AEMC’s recently concluded rule changes:

- requiring network businesses to set prices that reflect the efficient cost of providing network services to individual consumers; and
- balancing the incentives on electricity distributors to make efficient decisions in relation to investment in demand management.

7. Given the raft of regulatory changes that industry participants are dealing with, which aim to promote a more efficient and competitive electricity sector that ultimately benefits consumers, we are not convinced of the necessity or desirability of AEMC considering the MTR Rule Change at this stage. AEMC’s development of the ‘game-changing’ Competition in Metering Rule Change and AER’s unbundling of metering services from DUoS charges are already highly complex processes. We believe this additional proposal:

- creates greater regulatory burden;
- provides no overriding benefits for consumers; and
- is inconsistent with the market-led approach to achieving the Government’s policy objectives for the electricity sector.

8. Industry participants (and potential participants) are gearing up for the transition to competitive metering arrangements which take effect on 1 December 2017. A competitive metering market is expected to facilitate the deployment of advanced meters across the NEM. The substantial efficiency and other benefits for consumers and network providers from advanced meters are widely recognised in Australia and internationally. These benefits have been discussed extensively in the *Power of Choice Review* and subsequent consultations on the Competition in Metering Rule Change.

9. We consider the MTR Rule Change to be a ‘second-order’ issue in the bigger scheme of things. It is likely to create additional disruption and uncertainty, and impose substantial costs to an already complex transition process. We encourage regulators to instead focus on ensuring the fundamental shift to a competitive metering market

is achieved in a timely manner so the deployment and uptake of advanced meters will not be delayed.

Greater regulatory burden

10. The transition to a competitive metering market is a major and complex undertaking. This is manifested by the commencement date of the Competition in Metering Rule Change already being delayed by five months, from 1 July 2017 to 1 December 2017, in order "to consider complex issues raised in stakeholder submissions around the details of implementing a competitive framework for metering".²
11. The MTR Rule Change appears to require even more complex changes to more rules and regulations (or legislation, as appropriate). For example, its current form does not reflect AER's *Final Decisions* for NSW and ACT electricity distribution, and *Draft Decisions* for Queensland and South Australian electricity distribution, which unbundle metering services from DUoS charges. Weaving this and other complex arrangements into the Competition in Metering Rule Change only 27 months prior to its commencement makes it unlikely that the 1 December 2017 timeline will be met.
12. The costs of implementing MTR, as assessed by Jacobs SKM, are not insignificant: \$13 million for individual retailers, \$10 million for DNSPs, and \$6 million for AEMO.³ These costs do not include the costs to submitters during the consultation processes and, more importantly, the costs of any delay in the deployment of advanced meters arising from the incorporation of complex regulatory arrangements into the ongoing reforms.
13. We note that the Jacobs SKM study, commissioned by AEMO itself:

...found overall costs for MTR under most scenarios. Jacobs advised that this reflects the fact that the rate of adoption of MTR is assumed to be slow, with benefits deferred until 5 years after implementation, while implementation costs are borne upfront. Net positive benefits for MTR were only identified in one sensitivity, where high levels of uptake and low costs of implementation were assumed.⁴
14. The above costs create the risk of entrenching unnecessary costs into the regulatory system.
15. The introduction of more rules and regulations to accommodate MTR, many of which still require considerable analysis, also increases the possibility of confusion and industry disputes.

² <http://www.aemc.gov.au/getattachment/f60295b0-b05e-4c74-83c6-1b1d671c0169/Information-sheet-extension-of-time-for-final-rule.aspx>

³ Consultation paper, page 32

⁴ *Ibid.*, pages 53-54

16. In addition, MTR increases uncertainty by sending 'mixed' signals to investors (and potential investors) about the direction of future regulatory arrangements. For example, the Competition in Metering Rule Change does not, at this stage, allow small consumers to appoint their own Metering Coordinator (so as not to delay its implementation) while the MTR Rule Change proposes to allow consumers to appoint multiple metering service providers.
17. Instead of adding rules and regulations, regulators should focus on promoting competition by ensuring barriers to market entry are minimised, if not removed. As competition develops in the metering market, the need for regulation (or more prescriptive regulation) should diminish, as more and more services are developed through market solutions, and issues are addressed through commercial/contractual means, including the resolution of disputes. This has been our experience in the unregulated New Zealand metering market.
18. We believe the emerging competitive market itself would foster new and innovative metering services for consumers in the very near future that the MTR Rule Change appears to pre-empt.

No overriding benefits for consumers

19. The MTR Rule Change does not provide compelling evidence that MTR would deliver overriding benefits for consumers, or benefits of a nature that cannot largely be delivered by the emerging competitive metering market. A competitive market delivers benefits to consumers in the form of downward pressure on prices, greater choice, and better services.
20. We note that the Competition in Metering Rule Change recognises the trade-off between enabling small consumers to appoint their own Metering Coordinator and introducing market competition in a timely manner. It gives precedence to the latter, recognising the risk of delaying competition and the advantages of a simpler model at the early stages of market development. In the Draft Competition in Metering Rule Change, AEMC states that:

The draft rule does not enable small customers to appoint their own Metering Coordinator. The Commission considers that the development of the regulatory arrangements that would be needed to support this option for small customers, in order to provide for continuing market integrity and appropriate consumer protections, **would risk delaying the start of the market for competitive metering services and the benefits that this is expected to bring to consumers.**⁵

⁵<http://www.aemc.gov.au/getattachment/77ab14e8-7248-4187-b4b7-3af762b4b30d/Draft-determination.aspx>, pages 157-158

The Commission notes that the market is undergoing significant change. If the draft rule allowed small customers the ability to appoint a Metering Coordinator, **there is a risk that the significant complexity of the new arrangements could erode consumer confidence in the market. In the early stages of market development there are significant advantages to consumers in the simpler model** contained in the draft rule under which **they will only need to deal with a single retailer who is covered by consumer protections** in the NERR and jurisdictional ombudsman schemes.⁶

[*emphasis added*]

21. AEMC then recommends that:

...the option for small customers to appoint their own Metering Coordinator **be reviewed three years after the commencement of the new Chapter 7** of the NER. This review should include an assessment of whether the benefits of allowing a small customer to appoint their own Metering Coordinator would outweigh the costs and complexity of the regulatory arrangements that may be needed to support that option.⁷

[*emphasis added*]

22. AER likewise acknowledged the likely collective benefits from a timely switch to advanced metering. In its *Draft Decision* on electricity distribution for Ausgrid for the 2015-2019 regulatory control period (which is similarly reflected in its *Draft Decisions* for other NSW distributors), AER stated that:

...on balance, we **prefer to err on the side of faster entry rather than too low 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 because advanced metering solutions facilitate the move towards cost reflective tariffs which are fundamental to achieve efficient use of and investment in distribution networks.⁸

[*emphasis added*]

23. Importantly, it is unclear whether small consumers would be interested in appointing their own Metering Coordinator, much more multiple providers. In our experience in the competitive New Zealand metering market, many consumers struggle to distinguish retailers from distributors. Adding another party into the picture adds an unnecessary level of complication and causes more confusion.

⁶ <http://www.aemc.gov.au/getattachment/77ab14e8-7248-4187-b4b7-3af762b4b30d/Draft-determination.aspx>, page 158

⁷ *Ibid.*

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>, Attachment 16, page 16-47

24. We note that the New Zealand Electricity Authority has refrained from allowing small consumers to appoint their own metering provider.⁹
25. Given the above considerations and the costs and complexities of MTR, we are not convinced it would deliver overriding benefits to consumers, at least at this stage of the reform process. Consistent with good regulatory practice, we believe that before any new rules and regulations are adopted, it should be demonstrated that:
 - a market problem exists;
 - the problem requires regulatory intervention; and
 - any proposed solution would deliver significant net benefits to consumers.

Inconsistency with market-led approach for the electricity sector

26. We are concerned that aspects of the proposed MTR Rule Change are inconsistent with the Competition in Metering Rule Change. As stated above, the Draft Competition in Metering Rule Change does not enable consumers to appoint their own Metering Coordinator (to ensure its timely implementation) while the MTR Rule Change proposes to allow consumers to appoint multiple metering service providers.
27. This inconsistency would not only create greater uncertainty but would compromise the effectiveness of the Competition in Metering Rule Change. Sorting out issues such as this is likely to further delay its commencement – an outcome that is not in consumers’ interest.
28. More generally, the myriad of new rules and regulations that will be spawned by MTR would not support the Government’s market-led approach to achieving its efficiency and competition objectives for the electricity sector. We note that the Draft Competition in Metering Rule Change adopts a ‘light-handed’ approach to regulation, leaving many transactions to commercial negotiations and contractual arrangements in order to facilitate market entry and competition.
29. An example of a light-handed approach is AEMC’s decision to adopt minimum services specification for advanced metering, rather than minimum functionalities or technological/technical specifications which are more prescriptive. This is intended to promote flexibility in the provision of metering services while ensuring that consumers will experience a minimum standard of service across NEM jurisdictions.
30. We note that the market-led model adopted in the (unregulated) New Zealand metering market has enabled the successful deployment of 1.3 million advanced meters across the country (64% market penetration) over the past few years without additional cost to consumers. We further note AEMC’s observation that “the market

⁹ Electricity Authority 2012, EA Part 10 review: nomination of metering equipment provider and access to metering data, Decisions and reasons, 13 April 2012, Wellington

in New Zealand appears able to largely resolve many...issues...through bilateral arrangements between the different parties".¹⁰

31. Instead of introducing more rules and regulations, we believe the role of regulators during the transition to a competitive market is to ensure that barriers to market entry are removed, and enable an environment where commercial solutions can be developed. Consistent with a market-led approach, regulators should 'let the market play out' and give further thought to the evolution of metering services in future reviews.

Further proposals may be revisited in future reviews

32. We believe it would be prudent and practical for AEMC to fully defer consideration of MTR at this stage. As AEMC itself states, the proposed MTR Rule Change would form part of stage 2 of the implementation of the *Power of Choice* initiatives.¹¹ The MTR Rule Change will then be considered subsequent to the:

- Competition in Metering Rule Change;
- Rule Change on Embedded Networks; and
- Implementation Advice on the Shared Market Protocol for advanced metering infrastructure.¹²

33. AEMC has signalled that it will review metering market arrangements three years into the implementation of the Competition in Metering Rule Change. The review will consider, among other issues:

- whether small consumers should have the ability to appoint their Metering Coordinator; and
- whether metering charges should be identified separately from other energy charges on a consumer's electricity retail bill.

34. AEMC could revisit MTR during this review, should there be indications that it would deliver greater competition and consumer benefits more than what the (expectedly competitive) market at that time would be capable of delivering.

Concluding comments

35. The added complexities associated with MTR are likely to delay the fundamental reform of expanding competition in the NEM metering market. At this junction of the reform process, regulators and industry should focus on ensuring an efficient and

¹⁰ <http://aemc.gov.au/getattachment/36b03bab-35ed-4c03-b434-8541a3e54dc4/Consultation-paper.aspx>, page 21

¹¹ Consultation paper, page 47

¹² *Ibid.*

timely transition to competitive arrangements. We believe the emerging competitive market itself will spur innovation in metering products and services that benefit consumers.

36. As competition emerges in the NEM metering market, the need for greater regulation (or more prescriptive regulation) should fall away.
37. We are happy to share with AEMC officials our experience in the competitive New Zealand metering market, particularly its transition to advanced metering.
38. Please contact me if have any questions or require further information at +644 803 9051 or Luz.Rose@vector.co.nz.

Yours sincerely
For and on behalf of Vector Limited

A handwritten signature in black ink, appearing to read 'Luz Rose', with a long horizontal stroke extending to the right.

Luz Rose
Senior Regulatory Specialist