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## **Submission on the Issues Paper on Electricity Pricing in Queensland**

### **Introduction**

1. This is Vector Limited's ("Vector")<sup>1</sup> submission on the Queensland Productivity Commission's ("QPC") Issues Paper, *Electricity Pricing in Queensland*, dated October 2015 ("the Issues Paper").
2. 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.<sup>2</sup> It further provides gas supply and treatment services, electricity and gas metering services, and fibre optic broadband communications in Auckland and Wellington.
3. We are actively engaging with potential customers in Australia's advanced metering market. Market conditions permitting, we expect to start deploying advanced meters in NSW in 2016.
4. We are an active participant in the Australian Energy Market Commission's ("AEMC") and the Australian Energy Regulator's ("AER") consultations relating to the ongoing reforms in the National Electricity Market ("NEM"), particularly the expansion of competition in the metering market. We are making this submission in the context of these reforms.
5. We are also exploring opportunities in Australia's emerging battery storage market. We believe any regulation for energy storage solutions should be based on sound regulatory principles and practice, including providing the right incentives to invest and innovate.

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

<sup>2</sup> On 9 November 2015, Vector announced that it has agreed to sell all of the shares in Vector Gas Limited, which has assets comprising gas transmission pipelines and gas distribution networks outside of Auckland. See <https://www.nzx.com/companies/VCT/announcements/273036>.

## **Towards a competitive metering market in Queensland**

6. We generally support the Australian Government's market-led approach to achieving its competition and efficiency objectives for the electricity sector. Consistent with this approach, we welcome AEMC's development of a rule change expanding competition in metering and related services to small-to-medium businesses and residential consumers in the NEM (*Competition in Metering Rule Change*). Through a market-led approach, we believe consumers in Queensland are unlikely to suffer from the problems experienced by consumers in Victoria, where a mandated rollout of advanced meters (with no input from retailers on the delivery of consumer benefits) resulted in relatively high costs and consumer backlash.
7. In particular, we welcome AEMC's light-handed approach to regulating the emerging competitive metering market, leaving transactions largely to commercial arrangements and market mechanisms.

## **Responses to specific questions in the Issues Paper**

8. We set out below our responses to specific questions in the Issues Paper that are of relevance to our advanced metering operations in Queensland.

Question 2.1 Are there changes to the structure of the electricity supply chain and its regulation that might improve the efficient delivery of a reliable supply of electricity to customers?

9. The introduction of the *Competition in Metering Rule Change* represents a fundamental shift in the supply of metering services that could deliver benefits for Queensland consumers. Since the unbundling of metering in this year's regulatory distribution determination for Energex and Ergon, it has become viable for retailers to begin deploying advanced meters using metering service providers in Queensland. The implementation of the *Competition in Metering Rule Change* in December 2017 will shift the responsibility for the selection of metering service providers exclusively to retailers, and usher in the installation of advanced meters, at a minimum.
10. The expansion of competition in Queensland's metering market is expected to facilitate the deployment of advanced meters in the state. The benefits of advanced meters are widely recognised in Australia and internationally, and have been widely consulted on by AEMC.
11. Advanced meters enable the delivery of:
  - energy efficiency gains;
  - greater consumer choice, which promotes demand side participation;
  - reduced costs for industry participants and consumers; and
  - network and public benefits, including the promotion of public safety.

12. We discussed the above benefits in our submission, dated 17 November 2014, on *The Treasury's Competition Policy Review Draft Report*.<sup>3</sup>
13. We agree with the QPC that "advanced metering may offer opportunities for greater automation in parts of the supply chain, reducing costs for both networks (through remote reading and efficient real-time network management) and retailers (to offset risks of unbilled energy)".<sup>4</sup>

Question 2.2 What are the key areas for productivity improvement across the electricity sector, and how could these influence Queensland's overall economic productivity?

14. We consider the expansion of competition in the metering market to be one of the key areas that would influence productivity improvements in Queensland's electricity sector. It would provide the right incentives for market entry and the timely deployment of advanced meters, which are expected to enable productivity improvements in the sector and the wider Queensland economy.
15. We believe the benefits of advanced meters, identified above, are best delivered in a competitive market. The discipline of the market incentivises providers with varying commercial propositions and deploying different technologies to come into play and deliver the best offering to their customers. Those that offer inferior services risk losing market share and would have strong incentives to make their offerings more attractive.
16. In New Zealand, where we are deploying advanced meters, the provision of advanced metering services is achieved through commercial arrangements between metering providers and retailers, who are responsible for measuring and providing consumers with electricity consumption data. This market-led and retailer-driven approach has enabled the successful deployment of 1.3 million advanced meters across the country over the past few years (64% market penetration) at no additional cost to consumers.

Question 2.16 What are the barriers to improving consumer interest and participation in the electricity market?

17. We consider consumers' inability to control the cost of their electricity consumption due to lack of consumption information, and lack of product and service choice, to be a key barrier to consumer interest and participation in the electricity market.
18. The advent of advanced metering technology will enable time-of-use tariffs that provide consumers access to near real-time information. This would allow them to

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<sup>3</sup><http://vectorams.com.au/documents/597574/598208/The+Treasury+Competition+Policy+Review+Draft+Report+17+November+2014.pdf/7fc6023c-3ff6-4f09-8761-156846c4a310>, pages 4-5

<sup>4</sup> Issues Paper, page 14

alter their consumption patterns to reduce costs; for example, consumers can use more electricity during off-peak times when electricity costs less.

19. One thing that regulators can do to promote consumer participation is to support the provision of information that enables consumers to compare the various service offerings in the market, i.e. reduce information asymmetry between service providers and consumers.
20. For example, the New Zealand Electricity Authority's "What's my Number?" campaign, which enables consumers to easily compare and switch retailers, has increased consumers' propensity to switch to retailers that offer better deals. A review of this campaign showed that since its launch in 2011, almost 780,000 New Zealanders have shopped around for a better electricity deal, and New Zealanders saved an estimated NZ\$4.24 million through switching in 2012.<sup>5</sup>
21. Regulatory proposals that promote greater transparency of consumption information for consumers, such as the above, promote a more dynamic and efficient market. However, other than proposals of this nature, we believe that regulation should keep pace but should not impede the introduction of new and more efficient and innovative technologies. The role of regulators should be to remove barriers to market entry, rather than impose additional rules and regulations that could mute or distort incentives for market entry and investment.
22. Innovation cannot be purposefully designed. Less regulation and greater competition enable service providers to focus on improving services to consumers that differentiate themselves from other providers (for example, making safer products and responding to consumer complaints more expeditiously) rather than focusing on regulatory compliance. This is likely to generate more consumer interest in the market.

Question 2.17 What are the costs to industry participants and risks to consumers of being regulated under either Australian Consumer Law or the National Energy Retail Law?

Question 2.18 What issues should be considered to ensure the customer protection framework supports new business models and innovation?

23. We generally believe that current regulatory frameworks for consumer protection, together with the ongoing reforms in the electricity sector, are appropriate and sufficient in ensuring the protection of small consumers in Queensland. A review by the Energy Working Group of the Coalition of Australian Governments ("COAG") on the regulatory implications of new products and services in the electricity market, dated July 2015, found that:

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<sup>5</sup> <http://www.ea.govt.nz/about-us/media-and-publications/media-releases/2013/september/>

...for many new products and services, such as energy efficiency services, direct load control and home energy management services, the Australian Consumer Law (ACL) and the Privacy Act provide an appropriate level of consumer protections.<sup>6</sup>

...there are a suite of new products and services where there is little justification for additional regulation. In particular, products and services that operate at the discretion of the customer should remain outside the NEL.<sup>7</sup>

24. We believe that market competition, in itself, is a very effective protection for consumers. In competitive markets, consumers face competing service providers who constantly strive to win the favour of consumers by providing new and innovative services, and improving the efficiency of their operations. The presence of multiple providers allows consumers to 'vote with their feet' if they are not satisfied with their current service provider.
25. Importantly, in a competitive market, investors bear the risk of poor technology choice or unsound commercial decisions, not consumers.
26. A report by the Australian Energy Market Operator ('AEMO') on the value of customer reliability, published in September 2014, notes that "residential customers are concerned about the rise in electricity prices since 2007-08".<sup>8</sup> The report indicates that "the majority of residential and business customers are satisfied with their current level of reliability and consider it to be of a high standard".<sup>9</sup> This could imply that additional compliance costs imposed on service providers in the electricity sector are likely to be borne by consumers without significant improvements in their reliability satisfaction levels.

Question 2.22 How could existing regulatory and institutional arrangements in the Queensland electricity sector support the efficient adoption of emerging technology across the electricity supply chain?

27. Queensland regulators can support the efficient adoption of emerging technologies (such as advanced meters and battery storage) by removing barriers to market entry and competition, and creating an environment where market solutions can be developed and flourish. This would also ensure the timely deployment of advanced meters and improved delivery of consumer benefits in the state.
28. We particularly supported the decision by AER to disapprove the imposition of:  
1) metering exit fees for the displacement of legacy meters with advanced meters, and  
2) administration fees for the transfer of consumers to another metering service

<sup>6</sup> <https://scer.govspace.gov.au/files/2015/08/New-Products-and-Services-Policy-Advice-FINALAugust-2015.pdf>, page 3

<sup>7</sup> *Ibid.*, page 5

<sup>8</sup> Australian Energy Market Operator (2014). Value of Customer Reliability final report, <http://www.aemo.com.au/Electricity/Planning/Value-of-Customer-Reliability-review>, page 1

<sup>9</sup> *Ibid.*

provider. This is reflected in AEMC's final determinations for electricity distribution in NSW and ACT (for the 2015-2019 regulatory control period) and Queensland and South Australia (for the 2015-2020 regulatory control period).

29. We opposed metering exit fees and transfer fees because they create barriers to market entry and competition by imposing costs on new market entrants that incumbent providers do not bear. Metering exit fees also disadvantage first movers into the market, who would pay these fees which are not imposed on subsequent entrants. We note that the transitions to competitive arrangements in the market for metering services for large consumers, and the electricity retail market, did not impose costs of this nature.
30. We also supported AER's decision allowing distributors to recover the costs of their efficient investment in metering through the classification of Type 5 and Type 6 (legacy) metering services as Alternative Control Services (user pays) during the next regulatory control period.
31. To ensure an efficient transition to competitive metering arrangements, we suggest that the Queensland Government review the metering provisions in the state's legislation, regulations and rules to ensure they are amended (as required) as soon as possible to reflect the expansion of competition in the metering market. Specifically, we **recommend** that Queensland's rules and regulations be amended to:
  - clearly distinguish the roles and accountabilities of electricity distributors in their capacity as network service providers from their role as metering service provider;
  - remove any distributor exclusive obligations related to metering;
  - remove ambiguities around metering provider accountabilities; and
  - modify metering specifications to accommodate advanced metering.
32. We further **recommend** that the Queensland Government work with their counterparts in other NEM jurisdictions to harmonise electricity rules and regulations across the NEM, including safety and technical standards.
33. We believe that safety is an important aspect of well-functioning markets; consumers need to have confidence that the products and services being delivered in the market are safe.
34. We consider the development of a national approach to safety in energy services, including advanced metering, to be beneficial in the context of the transition to a competitive metering market. This would minimise transaction and compliance costs, and avoid confusion for industry participants and consumers.

35. We also **recommend** that the appropriate Queensland government body develop and implement advanced metering standards that are consistent with national standards.
36. Vector is involved with funding Standards Australia’s development of a road map for standards requirements to support the deployment of advanced meters in Australia. The road map project highlights the opportunity for Australia to adopt *IEC 62052-31 – Electricity metering equipment (AC) – General requirements, tests, and test conditions – Part 31: Product safety requirements and tests*. We intend to purchase meters for use in Australia that comply with this standard.
37. We further **recommend** that the relevant Queensland regulator(s) work with Standards Australia to ensure the harmonisation of Queensland’s advanced metering safety standards with national standards.
38. Harmonising Queensland’s regulations with national regulations and with those of other NEM jurisdictions is good regulatory practice. It will ensure regulatory consistency, reducing transaction and compliance costs for industry and consumers.

Question 2.23 What are the potential costs and benefits to Queensland as a result of national harmonisation of energy policy and laws in terms of electricity prices or supply chain productivity?

Question 2.24 What are the risks and costs to customers and industry in Queensland arising from failure to harmonise regulation underpinning the NEM?

Question 2.25 What are they key opportunities remaining for national harmonisation in regulation and governance of the NEM, and benefits from these reforms for productivity and prices?

39. See our response to Question 2.22.

Question 2.26 What aspects of the Electricity Act should be considered for review in support of the longer-term provision of a more responsive and efficient electricity industry?

Question 2.24 What aspects of other Queensland laws and regulation potentially act as barriers to improving the efficiency of electricity supply in Queensland?

Question 2.25 What should be the focus for state regulation (Electricity Act and other legislation) to complement harmonised inter-jurisdictional energy law?

40. See our response to Question 2.22.

Question 3.9 In what ways could the tools, information and support available to assist residential and small business customers in SEQ to participate in the retail electricity market be improved better targeted?

Question 3.10 What is the role of government, retailers and consumer groups in promoting greater customer participation should retail electricity price deregulation in SEQ eventuate?

41. Part of the ongoing reforms in the NEM is AEMC's proposed rule change that would enable consumers to access information about their electricity consumption from their distributor or retailer. We supported this proposal in principle, particularly where it would encourage demand side participation and incentivise consumers to behave in their long-term interest (for example, by switching to another retailer that provides more competitive or better quality services).
42. There should, however, be limits to the amount of consumption information that consumers can obtain for free. Service providers should be allowed to recover the costs of providing information where these are high. This would minimise inefficiency in the form of other consumers 'subsidising' those who obtain information at no cost to themselves.
43. We note that technology already exists that would enable consumers to readily access information about their electricity consumption from their advanced meter. This can be provided, for example, through an in-home display device, web portal or smartphone app. This implies that the transition to advanced metering would make any requirements on distributors and retailers to provide consumption information less relevant over time. Any such requirements should therefore not be too prescriptive so as not to impose unnecessary costs on industry participants and consumers, or pre-empt the mass market transition to advanced meters.

Question 5.1 What are the barriers to improving consumer participation in the electricity market?

Question 5.2 What are the benefits to the productivity of the electricity market and broader supply chain in increasing customer participation, and how can these benefits be measured?

44. See our responses to Question 2.16, Questions 2.17 and 2.18, and Questions 3.9 and 3.10.

Question 5.3 What is the existing level of consumer knowledge and understanding of new electricity sector business models, products and services, and technologies?

Question 5.4 How will future developments, including changes in technology and the growth of new markets and business models, influence consumers' participation in electricity markets?

45. See our responses to Question 2.16, Questions 2.17 and 2.18, and Questions 3.9 and 3.10.



Question 5.9 What barriers and costs does a voluntary uptake of advanced metering present for the rate at which cost-reflective tariffs are able to be adopted?

46. AEMC's draft *Competition in Metering Rule Change* effectively addresses this concern by promoting the mass deployment of advanced meters while addressing cost issues by:

...includ[ing] a minimum services specification, which all new and replacement meters that are installed for small customers must meet. This specification sets out a list of services that a meter must be capable of providing, rather than focussing on the technical components that must be included in the meter.<sup>10</sup>

...The services included in the minimum services specification are those considered most likely to deliver benefits to most small customers at a relatively low cost.<sup>11</sup>

[emphasis added]

47. At the same time, the draft *Competition in Metering Rule Change* provides consumer choice and protection by providing small consumers with:

... the ability to **opt out of having an advanced meter** that meets the minimum services specification installed at their premises where a retailer proposes to install a meter to replace an existing working meter.<sup>12</sup>

However, there are certain scenarios where a right to opt out...will not apply, for example where a faulty meter requires replacement, or where testing results indicate that it is necessary or appropriate in accordance with good electricity industry practice for the meter to be replaced to ensure compliance with the NER.<sup>13</sup>

[emphasis added]

48. We believe the above approach achieves an appropriate balance between ensuring an efficient and timely mass deployment of advanced meters (i.e. meter providers do not have to go through the same street more than once for new and replacement meters) and protecting consumers, particularly those with low confidence to participate in the electricity market.
49. We expect 'opt out' cases to be in the minority and become rare as more and more consumers become aware of the benefits of advanced metering.

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<sup>10</sup> <http://www.aemc.gov.au/getattachment/77ab14e8-7248-4187-b4b7-3af762b4b30d/Draft-determination.aspx>, page v

<sup>11</sup> *Ibid.*, page vi

<sup>12</sup> *Ibid.*, page vii

<sup>13</sup> *Ibid.*

50. Queensland regulators can best facilitate the mass deployment of advanced meters in the state by:

- harmonising Queensland’s legislation, regulations and rules with the NEM framework expanding competition in metering services post-2017 as soon as possible;
- removing barriers to market entry and competition; and
- refraining from imposing additional or more prescriptive rules and regulations that could stifle market entry and innovation in the emerging competitive metering market.

Question 5.13 In what ways do the benefits of energy efficiency and demand management programs help consumers offset price risks?

Question 5.14 What types of incentives would be the most effective in balancing benefits and costs to achieve better outcomes in terms of electricity pricing and supply chain productivity?

Question 5.15 What are the benefits and risks in the Queensland Government providing incentives for households, businesses and industries to become more energy efficient or manage their peak levels of demand, including implementing energy efficiency standards for sectors within its jurisdictional authority?

Question 5.16 What barriers and costs does a voluntary uptake of advanced metering present for energy efficiency and demand management tools?

51. See our response to Question 5.9.

52. In relation to Question 5.15, we believe the Queensland Government should only interfere where:

- there is a market failure;
- the market failure warrants regulatory intervention, i.e. the right incentives or particular consumer benefits cannot be provided, or efficiently provided, by the emerging competitive market; and
- regulatory intervention can be shown to deliver significant net benefits for Queensland consumers.

### **Concluding comments**

53. We are happy to discuss with QPC officials our experience in the competitive New Zealand metering market, and our engagements with Australian regulators and industry participants in relation to the ongoing reforms in the NEM.

54. Please contact me if you have any questions or require further information at [Luz.Rose@vector.co.nz](mailto:Luz.Rose@vector.co.nz) or +644 803 9051.

55. No part of this submission is confidential and we are happy for it to be made publicly available.

Yours sincerely  
For and on behalf of Vector Limited

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

Luz Rose  
**Senior Regulatory Specialist**