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3 July 2015

Mr Sebastian Roberts
General Manager – Networks Branch
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 Preliminary Decisions on Electricity Distribution in Queensland and South Australia for 2015-16 to 2019-20

Introduction

1. This is Vector Limited's ("Vector") submission on the Australian Energy Regulator's ("AER") *Preliminary Decisions* on electricity distribution in Queensland (Energex and Ergon Energy) and South Australia (SA Power Networks), dated April 2015. The *Preliminary Decisions* cover the 2015-16 to 2019-20 regulatory control period ("next regulatory control period").

2. We welcome and generally support the AER's *Preliminary Decisions* in relation to metering services in Queensland and South Australia for the next regulatory control period, particularly its decisions to:

    - remove exit fees for the displacement of legacy meters with smart meters, and allow distributors in those states to recover the "residual capital cost" of their efficient regulated investment;
    - disapprove the "administration fees" proposed by Queensland and South Australian distributors for the transfer of customers to another metering service provider; and
    - disapprove the installation of "smart ready" interval meters in South Australia, as proposed by SA Power Networks.

3. We believe the above preliminary decisions will promote market competition and innovation in metering and related services, and facilitate the timely deployment of smart meters in Queensland and South Australia, the benefits to consumers of which are widely recognised.

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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Removal of exit fees and recovery of residual capital costs

6. We welcome the AER's preliminary decision to remove exit fees for the replacement of legacy meters with smart meters in Queensland and South Australia for the next regulatory control period. We are pleased that the AER has taken into account its *Final Decisions* for NSW and ACT electricity distribution for 2015-2020 (which removed exit fees) in making this decision, ensuring a consistent approach across the NEM.

7. The issue of exit fees has been extensively discussed as part of the AER's determination processes for electricity distribution in NEM jurisdictions for the next regulatory control period. We have consistently opposed their imposition because exit fees:

   - create a barrier to market entry, stifling competition and innovation;
   - impose a cost on the first mover to the market that subsequent entrants (and incumbents) do not face, which is unfair and inefficient; and
   - as a result of the above costs, exit fees will likely delay, if not prevent, the deployment of smart meters and the delivery of significant benefits to consumers in the NEM.

8. We agree with the AER's preliminary decision to allow Queensland and South Australian distributors to recover the "residual capital costs" of their regulated investments in metering as alternative control services, to avoid the stranding of these legacy assets.

Disapproval of administration fees

9. We also welcome the AER's preliminary decision not to approve the "administration fees" proposed by Queensland and South Australian distributors for the transfer of customers to another metering service provider. Again, we are pleased that the AER has taken into account its *Final Decisions* for NSW and ACT electricity distribution for 2015-2020 (which disapproved administration fees for meter transfers) in making this decision, ensuring a consistent approach across NEM jurisdictions.

10. Our previous submissions to the AER argued that, similar to exit fees, administration fees also create a barrier to market entry that would stifle competition and innovation, and potentially delay the deployment of smart meters in the NEM.

11. We agree with the factors and evidence cited by the AER which informed its preliminary decision not to approve the proposed administration fees for meter transfers:[1]

    - Information from retailers shows that meter transfer costs are immaterial.
    - The proposals submitted by distributors do not assume batch processing, which can deliver significant efficiencies.
    - An increase in distributors' staff is not required; it will be meter service providers, as the Financially Responsible Market Participants, who will bear the incremental costs of meter churn, not distributors.
    - Retailers and acquirers of a new meter customer, who bear the costs of acquisition, are incentivised to keep costs down and work with the business that lost the customer to ensure smooth market operation.
    - The Australian Energy Market Operator's amended meter churn procedures, which will take effect in September 2015, place the onus of administering meter transfers on the incoming Responsible Persons and their Metering Providers, minimising distributors' role in the displacement of legacy meters.
    - The magnitude of the proposed administration fees (for a simple transfer process) are disproportionately higher than the AER-approved metering opex per customer.
    - Distributors are not currently imposing meter transfer fees on their large customers.
    - Distributors are churning meters for customers installing solar PV systems in large numbers without imposing any administration fees for the meter transfer.

12. We reiterate the views we expressed to the AER on 20 April 2015 that the tasks of transferring meters are not unique to distributors; alternative metering service providers will undertake many of these tasks in the emerging competitive market.[2] In addition, given that distributors are performing many of these tasks as standard

[1] https://www.aer.gov.au/sites/default/files/AER%20-%20Preliminary%20decision%20Ergon%20Energy%20-%20Attachment%2016%20-%20Alternative%20control%20services%20-%20April%202015.pdf, pages 16-50 to 16-54

[2] https://www.aer.gov.au/sites/default/files/AER%20-%20Preliminary%20decision%20SA%20Power%20Networks%20distribution%20determination%20-%20Attachment%2016%20-%20Alternative%20control%20services%20-%20April%202015.pdf, page 16-50

business practice, we cannot see what incremental costs would arise as a result of competitive metering.[3]

13. In relation to the task of disposing legacy meters and its costs, we noted in our submission to the AER on the recovery of residual metering capital costs, dated 27 March 2015, that:

> …we understand that while distributors in Victoria required their legacy metering assets to be removed, others left it to their Field Service Providers to responsibly recycle the displaced assets. The proceeds from recycling were then used to offset disposal costs. We consider this to be a very efficient process for the proposed competitive metering market, especially for aged type 6 meters. We acknowledge that type 5 meters will need to be returned and read, but we expect the competitive market to also deliver innovative solutions in relation to these meters.[4]

Disapproval of the installation of "smart ready" interval meters in South Australia

14. We further welcome the AER's preliminary decision to reject SA Power Networks' proposal to install "smart ready" meters for new and replacement situations. Our submission on the AER's *Issues Papers* on Queensland and South Australian electricity distribution for the next regulatory control period, dated 30 January 2015, argued that the installation of "smart ready" meters (rather than fully smart meters) are unnecessary and undesirable because "smart ready" meters:

    - do not support market competition and innovation;
    - disincentivise investment;
    - do not reduce, but instead raise, costs;
    - do not offer overriding consumer benefits;
    - could raise accountability issues under the new rules in a competitive metering market; and
    - do not promote an environment conducive to the development of commercial solutions.[5]

15. In that submission, we noted that "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".[6]

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[3] https://www.aer.gov.au/sites/default/files/AER%20-%20Preliminary%20decision%20SA%20Power%20Networks%20distribution%20determination%20-%20Attachment%2016%20-%20Alternative%20control%20services%20-%20April%202015.pdf, page 16-50
[4] http://vector.co.nz/documents/101943/488672/Vector+Submission+Residual+Capital+Cost+Recovery.pdf/24d70aee-19dd-4256-9372-b7ddd4117bfd, page 4
[5] http://vector.co.nz/documents/101943/488672/Vector+Submission+AER+Issues+Papers+on+Qld+and+SA+Proposals.pdf/dfcaf382-dd09-4b40-88d4-932532894ca9, pages 9-14
[6] *Ibid.*, page 14

16. The above points are discussed in more detail in our January 2015 submission.[7]

17. We agree with parties who raised concerns about the longer-term market impacts of installing "smart ready" meters before the new market arrangements are implemented. We therefore welcome the AER exercising prudence by taking into account "concerns about implementing metering reform ahead of a market-led roll out of advanced metering", noting that "there is no regulatory requirement on SA Power Networks to provide smart ready meters".[8] We note the AER's statement that:

> …[t]he SA Government has since made clear it intends for the new and replacement policy to work in conjunction with the rule change on expanding competition in metering and does not intend to finalise its new and replacement policy until after the AEMC's final determination on the rule change.[9]

18. We support the AER's view that there is not enough evidence to suggest that the expected benefits of "smart ready" meters will outweigh the additional $11 million capex required to install "smart ready" interval meters instead of basic accumulation meters in replacement situations.[10] We agree with the AER's observation about the limited capability of "smart ready" meters to facilitate cost-reflective pricing:

> While we support moving to greater cost reflectivity in pricing, we note that the sophistication of price signals enabled by a type 5 (interval) meter will still be somewhat limited. These meters….still need to be manually read…There will be a disconnect between prices and when customers receive their bills, limiting a customer's ability to respond to price signals…In comparison, an advanced meter can be read remotely and provide real time data to customers which should better facilitate cost-reflective pricing and customer response.[11]

19. We agree with the AER that "smart ready" meters are not a cost-effective way to transition to smart metering and therefore not in the long-term interest of South Australian consumers. We agree with the AER that:

> …smart ready interval meters risk becoming redundant before the end of their technical life. It does not seem prudent to install more expensive smart ready interval meters that face the same risk of becoming redundant as a cheaper accumulation meter. Particularly as under the existing regulatory framework it is

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[7] http://vector.co.nz/documents/101943/488672/Vector+Submission+AER+Issues+Papers+on+Qld+and+SA+Proposals.pdf/dfcaf382-dd09-4b40-88d4-932532894ca9

[8] https://www.aer.gov.au/sites/default/files/AER%20-%20Preliminary%20decision%20SA%20Power%20Networks%20distribution%20determination%20-%20Attachment%2016%20-%20Alternative%20control%20services%20-%20April%202015.pdf, page 16-29

[9] *Ibid.*

[10] *Ibid.*, page page 16-30

[11] *Ibid.*, pages 16-30 to 16-31

customers, not SA Power Networks, which would pay for the redundant metering capital costs as customers begin to switch to competitive metering providers.[12]

Given the limited benefits in the interim and that this is not a cost-effective way to transition to advanced metering we approve replacement capital expenditure for basic accumulation meters only.[13]

Concluding comments

20. We reiterate our support for the AER's preliminary decisions in relation to the above metering issues, and their importance in promoting market competition and innovation that benefit consumers in Queensland and South Australia.

21. We therefore **recommend** that the AER retain the above preliminary decisions in its *Final Decisions* for electricity distribution in Queensland and South Australia for the next regulatory control period.

22. We are happy to discuss with AER officials any aspects of this submission.

Yours sincerely
For and on behalf of Vector Limited

Richard Sharp
Head of Regulatory

[12] https://www.aer.gov.au/sites/default/files/AER%20-%20Preliminary%20decision%20SA%20Power%20Networks%20distribution%20determination%20-%20Attachment%2016%20-%20Alternative%20control%20services%20-%20April%202015.pdf, page 16-34
[13] *Ibid.*