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Vector Limited
101 Carlton Gore Rd
PO BOX 99882
Auckland 1149
New Zealand
+64 9 978 7788 / vector.co.nz

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: VIC2021-26@aer.gov.au

Submission on the AER's Issues Paper on Victorian Electricity Distribution Determination for 2021 to 2026

Introduction

1. This is Vector Limited's (Vector) submission on the Australian Energy Regulator's (AER) *Issues Paper – Victorian electricity distribution determination, 2021 to 2026* (the Issues Paper), dated April 2020.

2. Vector is one of New Zealand's largest listed companies and provides energy and technology services across the country, with a vision of *creating a new energy future*. It is the largest provider of electricity and gas distribution network services in New Zealand, and the country's leading provider of advanced (smart) metering solutions. It also provides fibre optic broadband communications network services, solar PV, energy storage, home energy management solutions, and electric vehicle recharging services.

3. Our advanced metering business (Vector Metering) provides a cost-effective end-to-end suite of energy metering and control services to energy retailers, distributors and consumers. Vector Metering is an accredited Metering Data Provider and Metering Provider, and a registered Metering Coordinator, in Australia's National Electricity Market (NEM). We are deploying advanced meters in the NEM (except in the state of Victoria) and are working with other industry participants on new technology demand response initiatives.

4. This submission focuses on two issues that are of great interest and relevance to Vector Metering and could have a significant bearing on the next regulatory control period for Victorian distribution network service providers (DNSPs), from 2021 to 2026. These include: 1) the potential introduction of competition in advanced metering services in Victoria, and 2) future arrangements for the integration of distributed energy resources (DER) into the grid. We set out our views on these issues below for the AER's consideration.

5. No part of this submission is confidential. Vector's contact person for this submission is:

Paul Greenwood
Industry Development Australia
[redacted]

Competition in advanced metering services

Alignment with NEM metering arrangements

6. The *Final Framework & Approach Paper* for electricity distributors in Victoria for the 2021-2026 regulatory control period (dated January 2019), which informed the Issues Paper, noted the Consumer Challenge Panel's suggestion that analysis be undertaken to determine

whether net benefits arise from harmonising Victorian metering arrangements with the rest of the NEM (page 111). While recognising that this is a matter of jurisdictional prerogative (as noted by the AER), we strongly share the Panel's perspective and encourage the Victorian Government and the relevant regulators to actively consider this suggestion so it can inform this ongoing distribution determination process and related decision-making processes.

7. We have been consistent in our view that fully applying the NEM regulatory framework for competitive metering to Victoria would deliver superior outcomes for residential and small business consumers in the state. We believe it would provide stronger, forward-looking incentives for market participants to innovate and deliver improved services to consumers. Victorian consumers will also benefit from similar levels of service experienced by consumers in other NEM jurisdictions who have had their legacy meters replaced with newer, advanced meters.

8. Consistent with good regulatory practice, a harmonised regulatory framework in the entire NEM would also minimise compliance costs and reduce confusion for many market participants operating across jurisdictions.

Competitive provision of advanced metering services

9. In our view, the value of advanced meters is best delivered through a competitive market. Electricity consumers in Victoria would benefit from the competitive delivery of metering services through the following:

    a. *Improved and more innovative services from multiple providers*

        The entry of more service providers into the metering market incentivises all providers to focus on delivering improved or differentiated services to their customers, rather than on regulatory compliance. Service providers whose offerings do not provide value risk losing customers and market share, and could exit the market. Providers would therefore have strong incentives to keep competing and innovating to offer compelling products and services to their customers.

        Innovation cannot be purposefully designed. It is important that incentives for innovation are in place to ensure the continued delivery of consumer benefits over time, i.e. promote dynamic efficiency.

    b. *Greater pricing transparency*

        In a competitive market, the price of metering is not bundled with the price of natural monopoly distribution services. Specific charges apply to metering services instead of 'common' network charges, more accurately reflecting the value of the service to customers.

        A competitive metering market therefore promotes pricing transparency, particularly for retailers and metering service providers, and reduces the risk of cross-subsidies from natural monopoly services. It provides more accurate signals to parties wishing to enter the market to provide better/alternative services and to potential customers wishing to avail of advanced metering services.

    c. *Greater choice for consumers*

        In a competitive market with multiple metering service offerings, customers can choose the service that suits their circumstances. They can switch providers ('vote with their feet') if they are not satisfied with their provider. This creates strong incentives for providers to improve their services to retain the loyalty of their customers and attract new ones.

The presence of competing metering service providers incentivises the provision of a wider range of services and the application of new (or newer) technologies to meet consumers' rising expectations. This facilitates the expansion of energy markets and the creation of new ones, potentially including markets for services that may not use advanced meters. This provides greater choice for consumers.

d. Investment and technology risks residing with investors, not with consumers

A competitive market is best underpinned by a policy of technology neutrality. Picking technology winners or prescribing technical functionalities is best left to those who take investment risks. This protects consumers or taxpayers from bearing the cost of poor technology choice by their service provider or the regulator.

Highly prescriptive policies are 'fragile by design', e.g. it could 'lock out' from the market participants who do not use the same standards/technologies, limiting competition and innovation. It could also 'lock in' those who have already made investments, making market exit more costly. Mandating technical specifications also increases compliance costs for market participants and monitoring/audit costs for regulators.

e. Stronger investment incentives

A competitive metering market would attract parties willing to provide alternative or better offerings than those currently available under regulated arrangements. This creates a conducive environment for the development of more commercial solutions.

f. Reduced costs from greater alignment with the NEM metering framework

[Discussed in the above section.]

Classification of metering services as Alternative Control Services

10. Consistent with our preference for a competitive metering market to emerge in Victoria, Vector supports the AER's classification of Victorian DNSPs' metering services as "Alternative Control Services" (services that have the potential to become contestable), rather than "Standard Control Services" (the costs of which are smeared across the network's customer base).

11. The above classification signals contestability and would help facilitate the transition to competitive metering should the Victorian Government choose to undertake this path.

Managing future expectations

12. The advanced metering market in Victoria is at an important juncture, in light of the following recent or impending developments:

a. Review of the Metering Market

In May 2020, the AER, Australian Energy Market Commission and Australian Energy Market Operator (AEMO) jointly issued a re-prioritised regulatory framework due to COVID-19. One of the work programmes that has been selected to proceed is the first Review of the Metering Market - three years into introduction of competitive metering in the NEM. This Review will commence in Q3 2020 and decisions will be implemented in 2023. The outcomes of this Review could have material implications for future metering arrangements in Victoria.

Given the Consumer Challenge Panel has raised the question of whether the alignment of Victoria's metering framework with the NEM framework will yield net benefits, it is not

unreasonable to expect this issue to be raised by the Panel (or Panel members) and other interested parties during the Review.

b. *Expiry of some advanced meters in Victoria within the next regulatory control period*

The economic life of some advanced meters in Victoria will start expiring within the next regulatory control period – sometime in 2024. We urge the Victorian Government and regulators to consider whether a closed, non-competitive metering market would still be appropriate for Victoria. This could 'lock in' investment for another 15 years or so, limiting the scope for innovation and competitive provision of metering services.

c. *The Federal Government's Technology Investment Roadmap and AEMO's rule change request relating to DER integration*

These reviews on new technologies could influence the role of advanced meters in enabling new energy services and energy system resilience, and how future regulatory arrangements will facilitate the performance of that role.

d. *The ongoing distribution determination process for Victorian DNSPs that is the subject of this consultation*

We would find it useful if the Draft Determination the AER will issue following this consultation would provide some guidance for stakeholders on potential changes to the regulatory framework for metering in Victoria that could be triggered by the above reviews/consultations. The Draft Determination could, for example, outline the initial steps the AER will undertake should the Victorian Government or any future state government decide to facilitate the introduction of competition in metering in the state.

Integration of DER into the grid

13. The Issues Paper is canvassing, among other issues, "whether the Victorian distributors' expenditure and tariff reform proposals support the energy system transition including by efficiently integrating…DER such as rooftop solar, home batteries and electric vehicles into the grid" (page 5).

14. As a leading technology solutions provider, Vector is working with various market participants in the NEM on new technology trials using renewable energy and advanced metering data ('non-network solutions'), including the integration of DER into DNSPs' low voltage networks.

15. Vector's submission to the AER on the assessment of DER integration expenditure, dated 20 January 2020, supports the AER's proposal to develop a guidance paper identifying the factors DNSPs should take into consideration to demonstrate the prudency and efficiency of their proposed expenditures for increased DER penetration. We further support the integration of this guidance paper into the existing AER guidelines and expenditure assessment processes, including as a supplement to the AER's existing Expenditure Forecast Assessment Guideline.

16. We support greater DER integration that maximises efficiencies for industry participants and enables the timely delivery of benefits without imposing onerous costs on consumers. This can be ensured if DNSPs face incentives to efficiently manage DER connected to their low voltage network. To facilitate this outcome, we suggest in the above submission that DNSPs be incentivised to choose a solution that:

a. unlocks innovation;
b. avoids the duplication of infrastructure or systems;
c. facilitates optimal timing for the DNSP's initiative;

d. is flexible and able to be adapted to changing consumer expectations;
e. ensures that consumers only pay for the services or features they use or require;
f. does not result in consumers being charged more than once for the same service;
g. provides certainty to DNSPs and other stakeholders, including potential service providers, on how DER integration expenditure will be assessed;
h. does not compromise network safety, reliability and resilience;
i. does not impede the entry of other service providers and potential entrants to the market; and
j. is delivered by a service provider or providers selected through a transparent and contestable process.

Concluding comment

17. We are happy to provide further information to support our submission or discuss any aspects of it with the AER.

Yours sincerely

Mitch Webster
Group Manager – Sales and Marketing
Vector Metering