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Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

By email: VICElectricity2016@aer.gov.au

Dear Mr Pattas

Submission on the AER's Preliminary Decision on Victorian Electricity Distribution for 2016-2020

Introduction

1. This is Vector Limited's ("Vector") submission on the Australian Energy Regulator's ("AER") *Preliminary Decisions* on electricity distribution for AusNet Services, Citipower, Powercor, Jemena and United Energy ("the Victorian distributors"). The *Preliminary Decisions* cover the 2016-2020 regulatory control period ("next regulatory control period").
2. Vector¹ is an active participant in the AER's consultations on the regulatory resets for electricity distribution in Victoria in the context of the ongoing reforms in the National Electricity Market ("NEM"). Our main interest is in the expansion of competition in metering and related services to small-to-medium businesses and residential consumers which will take effect across the NEM on 1 December 2017, facilitated by the Australian Energy Market Commission's ("AEMC") *Competition in Metering Rule Change*.
3. We are making this submission in the context of the above reforms and the emerging competitive metering market.

¹ Vector is one of New Zealand's largest listed companies and the country's largest electricity distribution business, 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.

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>.

For more information on Vector, see www.vector.co.nz and www.vectorams.com.au.

4. We are currently engaging with potential customers in Australia's advanced metering market. Market conditions permitting, we expect to start deploying advanced meters in NSW in 2016.

Classification of metering services

5. We agree with the AER's preliminary decision to classify metering services in Victoria as alternative control services ("ACS" - user pays approach) for the next regulatory control period. It is appropriate in the context of the transition to competitive metering arrangements, reflecting the lighter-handed form of regulation these services will be subject to (relative to Standard Control Services). The unbundling of metering services from network charges enables market participants to make more informed commercial decisions - an important feature of an emerging competitive market.
6. In addition, classifying metering services as ACS is consistent with the AER's *Final Decisions* for NSW, ACT, Queensland and South Australian electricity distribution for the next regulatory control period. This facilitates regulatory consistency across NEM jurisdictions and reduces transaction and compliance costs for parties operating across the NEM.

Exit fees and transfer fees

7. While we recognise that the AER is required to set exit fees in Victoria for the replacement of regulated meters with competitively sourced meters, we are disappointed that these fees will remain in place in Victoria until the end of 2020. We reiterate our view that their imposition does not promote the expansion of competition in the metering market. By imposing costs on entrants, exit fees (and administration fees for the transfer of customers to another retailer) create a barrier to market entry that stifle competition and innovation. These fees do not provide the right incentives for market entry and investment.
8. As noted in our previous submission to the AER on Victorian electricity distribution, dated 13 July 2015, the mandatory deployment of advanced meters in Victoria resulted in huge cost overruns, which triggered consumer backlash.² Imposing additional burden on Victorian consumers for the same meters is not in consumers' interest.³

Recovery of efficient regulated investment

9. We support the AER's preliminary decision allowing Victorian distributors to recover the costs of their efficient regulated investment.

²<http://vectorams.com.au/documents/269038/269699/Vector+Submission+AER+Issues+Paper+Victorian+Distribution+2016-2020.pdf/36da09b2-bcd6-4a21-b174-9ddfc958146b>, page 3

³ *Ibid.*

New and replacement meters

10. We agree with the AEMC's final decision in the *Competition in Metering Rule Change* not to further extend metering exclusivity arrangements for distributors beyond 2017. This would allow the introduction of competition in new connections and replacement meters as a transitional measure towards full competition in the Victorian metering market:

An extension to the exclusivity arrangements beyond the commencement of the new Chapter 7 of the NER is...likely to act as an impediment to competition in other segments of the market where effective competition could reasonably be expected to evolve, such as at greenfield sites or at existing sites for maintenance replacements or faults.⁴

11. The above decision is consistent with the promotion of competitive metering provision in Victoria and the timely transition to competitive arrangements. This also facilitates the alignment of metering arrangements in Victoria with those of other NEM jurisdictions, reducing transaction and compliance costs for market participants and consumers.
12. We **recommend** that the relevant Victorian state regulators remove potential barriers to competition in new and replacement metering services as soon as possible. For example, state regulators should start considering the alignment of the relevant state legislation, regulations and rules with the NEM competitive metering framework, to ensure an efficient transition to a competitive market post-2017.

Ring fencing guidelines

13. We note that the *Competition in Metering Rule Change* requires the AER to develop ring fencing guidelines in relation to metering services next year. In connection with this requirement, the AER's *Preliminary Decision* on electricity distribution for AusNet Services, which is similarly reflected in its *Preliminary Decisions* for the other Victorian distributors, states that:

Based on the current guidance from the AEMC, we will be required to develop and publish distribution ring fencing guidelines by 1 December 2016. We consider any cost allocation issues relating to metering costs would be best dealt with in the development of this guideline in accordance with a nationally consistent approach.⁵

In the interim, before these guidelines are developed, our preferred approach is to allocate all costs formerly regulated under the Order to alternative control services.

⁴ <http://www.aemc.gov.au/getattachment/ed88c96e-da1f-42c7-9f2a-51a411e83574/Final-determination.aspx>, pages 523-524

⁵ https://www.aer.gov.au/system/files/AER%20-%20Preliminary%20decision%20AusNet%20distribution%20determination%20-%20Attachment%2016%20-%20Alternative%20control%20services%20-%20October%202015_0.pdf, page 16-40

This maintains the status quo until we consider this further through the ring fencing guideline process.⁶

14. We **recommend** that the AER align the cost allocation mechanism in the ring fencing guidelines it will develop with the cost allocation approach for metering services it adopted in its *Final Decisions* for electricity distribution in NSW, ACT, Queensland and South Australia for the next regulatory control period. We believe the latter approach provides appropriate incentives for market competition to emerge, promoting consumer choice.
15. We also **recommend** that the AER consider how the ring fencing guidelines and breaches of those guidelines may be effectively enforced and addressed, respectively. We further **recommend** that the draft ring fencing guidelines be subject to public stakeholder consultation(s).

Concluding comments

16. We are happy to share with AER officials our insights from our engagements with regulators and market participants in other NEM jurisdictions, and our experience in successfully deploying advanced meters in the competitive New Zealand metering market.
17. If you have any questions or require further information, please contact me at Luz.Rose@vector.co.nz or +644 803 9051.
18. 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



Luz Rose

Senior Regulatory Specialist

⁶ https://www.aer.gov.au/system/files/AER%20-%20Preliminary%20decision%20AusNet%20distribution%20determination%20-%20Attachment%2016%20-%20Alternative%20control%20services%20-%20October%202015_0.pdf, page 16-40