



Vector Limited
101 Carlton Gore Road
PO Box 99882, Newmarket
Auckland 1149, New Zealand
www.vector.co.nz
Corporate Telephone
+64-9-978 7788
Corporate Facsimile
+64-9-978 7799

28 February 2013

Smart Meter Taskforce
Resources and Energy
NSW Trade & Investment
GPO Box 3889
Sydney NSW 2001
AUSTRALIA

To whom it may concern,

NSW Smart Meter Task Force, Discussion Paper

1. Vector welcomes the opportunity to submit on the NSW Government's Smart Meter Task Force Discussion Paper, dated November 2012.
2. No part of our submission is confidential and we are happy for it to be publicly released.
3. Vector's contact person for this submission is:

Robert Allen
Senior Regulatory Advisor
robert.allen@vector.co.nz
+64 9 978 8288
4. Vector is New Zealand's 5th largest listed company and the country's largest electricity distribution network, supplying the Auckland region. Vector also provides gas distribution network services in more than 30 towns and cities in the North Island, high-pressure natural gas transmission services throughout the North Island, gas supply and treatment, electricity and gas metering services, and fibre optic broadband communications networks in Auckland and Wellington. Our metering business, Advanced Metering Services (AMS), is New Zealand's leading smart meter provider, with approximately 42% market share.
5. While Vector's current market is limited to New Zealand we would be interested in considering opportunities in other countries such as Australia.
6. Vector is of the view that the NSW Smart Meter Taskforce should focus on ensuring barriers to commercial roll-out, and competition in the provision, of smart meters are minimised; with the objective that NSW be able to rely on competitive market provision of smart meters, and learn from the hard lessons from the mandated rollouts in Victoria and Queensland.

Experience with competitive roll-out of smart meters in New Zealand

7. Metering is fundamentally a contestable service, including at the residential level.
8. Vector happens to own an electricity distribution network but this is not necessary for the provision of metering services. This is illustrated by the fact that while Vector owns the Auckland electricity distribution network and is New Zealand's

largest metering service provider, the largest meter provider on Vector's network is Metrix,¹ not our own AMS business.

9. Metering and smart metering services are provided in New Zealand by electricity retailers, electricity distribution business, and independent meter owners. In New Zealand, provision of metering services is predominantly done through contractual arrangements with retailers, who are responsible for measurement and provision of electricity consumption data.
10. The Electricity Authority², New Zealand's electricity industry regulator, in a review of the metering market, stated that it "considers that the metering services market in New Zealand is workably competitive, with multiple retailers, distributors and other parties obtaining metering services from competing meter owners/operators ... A regulatory intervention ... would likely hamper the efficient development and operation of the metering services market by diminishing the commercial and competitive incentives for the efficient provision and procurement of metering data and services."³
11. The Electricity Authority went on to state:

Specifically, the key factors identified by the Authority indicating that the metering services market is workably competitive are:

 - (a) there are multiple MEPs competing to provide metering services to multiple parties, including retailers, distributors and third parties;
 - (b) there is ongoing investment in metering infrastructure, including significant investments in AMI;
 - (c) barriers to entry and expansion are not so high as to impede competition;
 - (d) retail competition to offer consumers better and different services is causing rapid change and innovation in the metering services market and the deployment of AMI; and
 - (e) the potential for an MEP to temporarily be a dominant provider of metering services is consistent with workable competition.

The Authority considers that the diversity of participants in the metering services market, and the level of investment in AMI by different parties, indicate the market is workably competitive.⁴
12. New Zealand is successfully transitioning to advanced metering through market mechanisms.
13. Vector is two-thirds of the way through the roll-out of approximately 715,000 smart meters that we have been contracted to supply to electricity retailers in the New Zealand electricity market.
14. The Electricity Authority has observed that "The metering services market is undergoing rapid change due to the extensive deployment of advanced meters, and the development of associated products and services. Based on announced AMI deployment plans, there will be about 1.5 million advanced meters installed by 2015 for Genesis, Contact, Mercury and Meridian (c.f. about 1.9 million ICPs in February 2012)."⁵
15. The fact that smart metering is being provided on a competitive basis in New Zealand, rather than mandated through regulatory mechanisms, means meter owners rather than consumers face the risk of picking the wrong metering technology. Meter owners that pick the wrong technology and attempt to recoup

¹ <http://www.metrixinfo.co.nz/>

² www.ea.govt.nz

³ Paragraph 7, Electricity Authority, Part 10 review: nomination of metering equipment provider and access to metering data, Decisions and reasons, 13 April 2012.

⁴ Paragraphs 12 and 13, Electricity Authority, Part 10 review: nomination of metering equipment provider and access to metering data, Decisions and reasons, 13 April 2012.

⁵ Paragraph 26, Electricity Authority, Part 10 review: nomination of metering equipment provider and access to metering data, Decisions and reasons, 13 April 2012.

the cost through higher metering service charges will ultimately become uncompetitive, lose market share, or exit the market.

16. As retailers using smart meters have to compete with retailers that do not, the cost of the smart metering must be recovered from savings made by the retailer as opposed to an additional impost on the consumer.
17. This obviously contrasts markedly from the experience of consumers in Victoria and Queensland, where the cost of metering to consumers and cost blow-outs have been a major issue.

Responses to the Task Force Questions

Are the principles that the Task Force will recommend to the NSA Government appropriate?

18. Vector particularly supports the principles that consumers should not pay higher charges for smart meters and Government mandated rollouts should be avoided. We consider these principles are highly interrelated. Based on Australian experience to date, Government mandated rollouts have contributed to consumers paying higher electricity charges.
19. Vector is of the view that if roll-out is on a commercial/voluntary basis, and consumers do not have to pay higher charges for upgrade of meters, then issues around consumer acceptance should not be as prominent as they have been in parts of Australia.

Are there any additional policy principles that the Task Force should consider recommending to the NSW Government?

20. Vector believes a successful regulatory policy for smart metering should be driven by the following principles:
 - a. **Competitive neutrality:** Metering and smart metering should be able to be provided by electricity retailers, electricity distribution businesses, independent meter owners or even end-users. The Government/regulatory agencies should ensure barriers to the introduction of smart metering and entry into this market should be minimised.
 - b. **Avoid barriers to competition:** The Government/regulatory agencies should ensure that meter owners are not able to inhibit competition in the metering or retail markets.

At present, Australian retailers are at a disadvantage as they do not hold any metering data, which may mean they will be exposed to additional costs during deployment due to the inaccuracies and practical events that occur (customer access, meter location, meter type, meters per customer etc). It will be important to ensure access to accurate legacy metering information is made available under reasonable commercial terms to avoid unnecessary costs being incurred during future smart meter deployments.

- c. **Technological neutrality:** The Government/regulatory agencies should avoid "picking winners" or prescribing smart metering features.

Many of the purported benefits that advanced metering infrastructure can deliver can in fact be delivered by other devices, bypassing the meter altogether. For example, it does not seem likely that the meter will be the hub of energy management within the home. Cloud services accessed via PCs, tablets or smartphones seem likely to be the media for this type of service.

Nationwide fibre deployments and implementation of 3G and 4G cellular services offer new possibilities, including direct communication with devices through the consumer's Internet connection rather than through advanced metering infrastructure. While advanced metering infrastructure could provide energy

management services it is certainly not the only option, or even the most likely choice.

- d. **Metering accuracy:** The Government/regulatory agencies have a role in setting standards for meter data accuracy, and reconciliation of electricity usage.

It is important not to lose sight of the core functions of meters. Meters exist because they measure usage of electricity and allow for billing. Advanced meters improve upon legacy meters as they are more accurate, remove the need for meter read visits and estimates, and also open the opportunity for retailers to offer new pricing and service options. The benefits of smart meters to electricity retailers are such that consumers have not had to pay directly for their roll-out.

- e. **Unbundling of costs:** The asset and reading charges needed to be unbundled from the electricity distribution charges such that the benefits of smart metering can be accessed by the retailer.

Is the Task Force correct to recommend a market-led rollout of smart meters with a level of Government support as the best possible option?

21. Yes. We agree with this approach. The New Zealand experience⁶ clearly shows that a market-led approach is most efficient.

What is the appropriate role of Government in the introduction of smart meters to ensure the most successful outcome for the electricity consumers?

22. The Government should focus on ensuring: (i) barriers to the introduction of smart metering and entry into the smart metering market are minimised; (ii) no industry participant is able to use smart metering as a barrier to competition or customer switching; and (iii) consumer protection e.g. regulation to ensure accurate meter reading.

Can a mandated rollout strike the right balance between urgent reforms that reduce the pressure of peak demand while protecting consumers from regulatory charges for meter installation?

23. No, we do not believe mandated approach will achieve the desired outcomes. The experience in Australia, to date, appears to be that mandated roll out can result in higher costs for consumers, and transfers technology risk from metering providers to consumers.
24. The mandated roll-out approach with the network provider centric goal of demand reduction does not unlock the primary smart meter benefits available to retailers and hence the cost is unnecessarily borne by consumers.
25. Smart metering on its own will not directly solve the peak demand problem and will expose consumers to additional charges. This approach does not focus on or unlock all the other direct business benefits smart metering can deliver, hence a mandated approach will not produce overriding benefits.

Is there sufficient community awareness/confidence in smart meters to facilitate a market-based approach?

26. We understand that the previous Australian deployment model has left many consumers confused and angry. By contrast the New Zealand retailer-led model has created very little consternation for consumers. To a large degree this is due to the New Zealand model having very little direct impact on consumers and therefore requiring minimal communication with them. Where there is consumer concern, the retailer is able to address those concerns directly as they have a direct relationship with the consumer.

⁶ As discussed above.

Would a slow take-up undermine any impact smart meters would have on the cost of supply?

27. No, a slower take-up of smart metering would not necessarily have any undue impact on the cost of supply. Under retailer-led deployments within NSW there is sufficient scale to ensure optimal cost of supply. Asset longevity with associated service revenue and the ability to provide post deployment services are key considerations to ensuring that smart metering services are provided at the lowest achievable price point whilst affording an attractive long-term investment opportunity for third party participation.

Concluding remarks

28. Vector believes it could be useful for the NSW Smart Meter Taskforce to discuss the New Zealand experience with the Electricity Authority, and New Zealand market participants such as Vector, Metrix and electricity retailers.
29. Vector would welcome the opportunity to meet with the Taskforce to discuss our views on this matter.

Kind regards

A handwritten signature in blue ink that reads "R. Girdwood".

Bruce Girdwood
Regulatory Affairs Manager