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Australian Energy Market Commission  
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Project Number: EMO0029

## **Submission on the AEMC's Draft Implementation Advice on the Shared Market Protocol**

### **Introduction**

1. This is Vector Limited's ("Vector")<sup>1</sup> submission on the Australian Energy Market Commission's ("AEMC") *Draft Advice - Implementation advice on the shared market protocol*, dated 25 June 2015.
2. We broadly agree with the AEMC's *Draft Advice* on the shared market protocol. We believe the proposed arrangements would support ongoing reforms expanding competition in metering and related services, and the deployment of advanced meters in the National Electricity Market ("NEM").
3. In this submission, we identify areas where the AEMC or AEMO can consider further improvements to make the proposed arrangements more efficient and durable, while promoting innovation. These are in relation to:
  - governance arrangements, particularly the size and composition of the amended Information Exchange Committee ("IEC"); and
  - the recovery of the costs of developing and operating the shared market protocol.
4. No part of this submission is confidential and we are happy for it to be made publicly available.

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<sup>1</sup> 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. It further provides gas supply and treatment, electricity and gas metering services, and fibre optic broadband communications network in Auckland and Wellington.

Vector is actively seeking opportunities in Australia's advanced metering market.

## Governance arrangements – IEC membership

5. We agree with the AEMC's proposal to update the IEC to "reflect a wider range of parties interested in B2B procedures" rather than establish an entirely new governing body which is likely to be more costly and disruptive. As a metering service provider actively seeking commercial opportunities in Australia's advanced metering market, we particularly support the inclusion of a new representative for metering coordinators/metering providers/metering data providers on the amended IEC. This is appropriate in the context of the emerging competitive metering market.
6. We are not convinced, however, that the amended IEC would require as many as 10 members. Many company boards and governing bodies of multiple-interest organisations run effectively with fewer members, and therefore lower costs. We believe the varied (and sometimes conflicting interests) between the non-independent IEC members would provide sufficiently strong incentives for those members to ensure that IEC decisions would deliver net benefits to, rather than impose costs on, industry participants and consumers.
7. The AEMC's *Draft Advice* itself (page 21) states that:

There are significant benefits to industry led decision making. Given the potential for changes to B2B procedures to have cost impacts for industry participants, the incentives on industry to make responsible and efficient decisions is likely to be stronger than those on AEMO. Industry is best placed to determine what it wants and is willing to pay for, as they will bear the costs of implementing an IEC decision. It is not necessary for AEMO to assess the merits of an IEC decision.
8. In addition, a 'pared down' and industry-driven IEC would be consistent with the lighter-handed form of regulation the metering market will be subject to when the AEMC's *Rule Change* expanding competition in this market takes effect on 1 December 2017.
9. We therefore **recommend** that the AEMC limit the size of the amended IEC from 10 members to no more than seven or eight members, as follows:
  - 1 independent representative;
  - 1 DNSP representative;
  - 1 retailer representative;
  - 1 metering coordinator/metering provider/metering data provider representative;
  - 1 third party B2B participant representative;
  - 1 consumer representative;
  - 1 discretionary member (*optional*); and
  - 1 Australian Energy Market Operator ("AEMO") representative.

10. To alleviate any concerns regulators may have on the effectiveness of the above 'lighter-handed' arrangement, the AEMC/AEMO could consider reviewing the IEC's membership in, say, three years following the implementation of the shared market protocol.

### **Obligations on parties – cost recovery**

11. The AEMC proposes that "[c]osts incurred by AEMO related to providing and operating the B2B e-hub, developing B2B procedures and establishing and operating the IEC would be recouped as B2B participant fees" and that "B2B participants would be required to pay B2B participant fees as determined by AEMO" (page iii of the *Draft Advice*).
12. We agree, in principle, that the recovery of costs from users ("user pays") is an efficient arrangement. However, we suggest that the AEMC re-consider its proposed approach of allocating costs to all B2B participants. We believe a more efficient "user pays" approach is to allocate costs to B2B participants who have direct contracts with end users of advanced metering services/the shared market protocol, i.e. predominantly retailers.
13. The costs of developing and operating the shared market protocol will be passed on to end users, and the AEMC or AEMO should ensure that it applies the most efficient and direct allocation methodology possible. Applying costs at the retail level only would function most effectively because:
  - fewer parties will be involved in the payment system, reducing compliance costs for industry participants and AEMO;
  - retailers have a direct relationship with end users. The number of end users for every retailer can easily be determined, for example, through the registry of electricity NMIs. This would ensure that all end users are 'captured' and cross-subsidies are avoided;
  - the need to calculate deductions for payments to other B2B participants would be removed, avoiding 'double counting' or failure to pass on costs, further simplifying the system. We can expect increasing complexity in the delivery and billing of services with the advent of advanced metering, as new and innovative 'over the top' services will be supplied at various levels in the supply chain;
  - it increases transparency without imposing real burden on retailers (and burden on other B2B participants); and
  - a simpler and more transparent system involves fewer disputes and lower costs of resolving those disputes.
14. We therefore **recommend** that AEMO recover the costs of developing and operating the shared market protocol at the retail level only to ensure a low-cost payment system that captures all end users of the shared market protocol.

15. We further **recommend** that AEMO release the cost allocation methodology for stakeholder consultation before it is finalised.

## **Other comments**

### *B2B procedures and B2B e-hub*

16. We generally agree with the AEMC's proposal to expand and update the B2B procedures and redevelop the B2B e-hub to support new B2B communications. We believe this is a more practical approach than building an entirely new system that is likely to be much more costly and disruptive, given many market participants are currently using the B2B e-hub.
17. We also agree with the AEMC's proposal that the B2B procedures "must support communications between parties relating to each of the services set out in the minimum services specification" in the AEMC's *Draft Rule Change* expanding competition in metering and related services.

### *Timeframes*

18. While it is ideal to have the shared market protocol in place when the competitive metering arrangements take effect in the NEM on 1 December 2017, the possibility of this not occurring cannot be ruled out.
19. In such case, we reiterate the view we expressed in our previous submission to the AEMC, dated 12 February 2015, that:

...the new shared market protocol should not be a pre-requisite for the introduction of competitive metering reforms. Advanced metering can be rolled out using existing industry processes, and the transition to a shared market protocol can then be undertaken once it becomes available.<sup>2</sup>

## **Concluding comments**

20. To recap, we **recommend** that:
  - the AEMC limit the size of the amended IEC to no more than seven or eight members to reflect an industry-driven governance arrangement which is appropriate in the context of the emerging competitive metering market;

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<sup>2</sup><http://vectorams.com.au/documents/597574/598208/FINAL+Vector+Submission+AEMC+Implementation+Advice+on+Shared+Market+Protocol.pdf/901e7f71-8fd8-4362-9a47-7a1e19a31e22>, page 5

- AEMO recover the costs of developing and operating the shared market protocol at the retail level only to ensure a low-cost payment system that captures all end users of the shared market protocol; and
- AEMO release the cost allocation methodology for stakeholder consultation before it is finalised.

21. We are happy to discuss with AEMC officials any aspects of this submission.

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

Yours sincerely

For and on behalf of Vector Limited

A handwritten signature in black ink, appearing to read 'Luz Rose', with a long, sweeping underline.

Luz Rose

**Senior Regulatory Specialist**