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Project Number: EMO0030

Submission on AEMC's Strategic Priorities for Energy Market Development

Introduction

1. This is Vector Limited's ("Vector")¹ submission on the Australian Energy Market Commission's ("AEMC") Discussion Paper, *Strategic Priorities for Energy Market Development*, dated 10 September 2015.
2. Vector is one of New Zealand's largest listed companies and provides energy, telecommunications, and advanced metering services across the country. We are actively seeking commercial opportunities in Australia's advanced metering market.
3. We broadly agree with AEMC's assessment that its priorities in 2013 remain relevant while acknowledging the significant evolution of some areas within each priority, that is:
 - strengthening consumer participation and continuing to promote competitive retail markets;
 - promoting the development of efficient gas markets; and
 - market arrangements that encourage efficient investment and flexibility.
4. In particular, we welcome AEMC's recognition of the potential impacts of emerging technology and the need to ensure the regulatory framework enables and supports investment and innovation in the context of a dynamic market.
5. In addition to encouraging efficient investment and flexibility, we believe the further development of energy markets should be emphasised under the "market priority", particularly in the context of the expansion of competition in metering and related services in the National Electricity Market ("NEM").

¹ For more information on Vector, see www.vector.co.nz and <http://vectorams.com.au/>.

6. We also consider safety to be an important aspect of well-functioning energy markets, particularly in the context of rapidly evolving technologies.

Developing competitive energy markets

7. As a business seeking commercial opportunities in Australia's advanced metering market, we broadly support AEMC's ongoing reforms in the energy sector, which seek to promote greater efficiency and competition in energy markets.
8. We believe a competitive market offers the most effective protection for consumers. In competitive markets, consumers benefit in the form of better products and services, greater choice of multiple or alternative service providers, and product and service innovation.
9. A competitive market also provides greater investment incentives by attracting interested parties who believe they can provide better offerings than those existing in the market, and minimising barriers to entry into the market.
10. We therefore welcome the introduction of the rule change expanding competition in metering services to small-to-medium businesses and residential consumers in the NEM (*Competition in Metering Rule Change*). We are an active participant in AEMC's consultations on this proposed rule change and related proposals.
11. The Discussion Paper puts a lot of emphasis on achieving efficiencies in the energy sector. We would also like to see greater emphasis on the development of energy markets, and the promotion of competition in these markets to the extent possible. For example, the *Competition in Metering Rule Change* would usher in a fundamental shift in metering market arrangements in December 2017. This is expected to facilitate the deployment of advanced meters, which are a critical enabler of greater consumer engagement and demand side participation in the electricity sector.

Expanding competition in the metering market

12. The benefits of advanced meters are widely recognised and extensively discussed in AEMC's consultations on the *Competition in Metering Rule Change*. Advanced meters have the capability of delivering energy efficiency gains, greater consumer choice, reduced costs, cost reflective prices, and network and public benefits. We discussed these benefits in our submission on The Treasury's *Competition Policy Review* in November 2014.²
13. We believe the value of advanced meters is best delivered in a competitive market. The discipline of the market enables multiple market participants with varying commercial offerings and deploying different technological innovations to come into

²<http://vectorams.com.au/documents/597574/598208/The+Treasury+Competition+Policy+Review+Draft+Report+17+November+2014.pdf/7fc6023c-3ff6-4f09-8761-156846c4a310>, pages 4-5

play to deliver the best services for consumers. Those that offer inferior services risk losing customers and market share, and therefore would have strong incentives to improve their services.

14. The competitive provision of smart meters means that meter owners, rather than consumers, face investment risks and the risk of poor technology choice. Metering service providers choosing the wrong technology are likely to impose higher metering charges on their customers (to recoup higher costs) and would become less competitive, lose market share, or exit the market.
15. We particularly welcome the light-handed approach taken by AEMC in the draft *Competition in Metering Rule Change*, which relies on market mechanisms to deliver many of its desired outcomes. We believe that regulation should keep pace but should not impede the introduction of new, more efficient, and innovative technologies.
16. Industry participants are gearing up for a competitive metering market and have allocated substantial amounts of resources in preparation for this transition. The complexity of this transition has already led to the commencement of the *Competition in Metering Rule Change* being delayed by five months, from 1 July 2017 to 1 December 2017.
17. We encourage AEMC to focus on the *Competition in Metering Rule Change*, instead of considering multiple second-tier issues (such as the proposed *Multiple Trading Relationships Rule Change*) that are likely to create additional disruption and uncertainty, and increase the costs of an already complex process. Its timely implementation will ensure that the delivery of consumer benefits from advanced metering will not be delayed.

Energy safety issues

18. As a potential entrant in the advanced metering market, we note the seeming lack of a national approach to energy safety issues, including in metering services. We understand that energy safety is currently within the purview of jurisdictional regulations.
19. We believe that safety is an important aspect of well-functioning markets; consumers need to have confidence that the services and products being delivered in the market are safe.
20. The importance of safety is reflected in the National Electricity Objective ("NEO"):

...to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

- (a) price, quality, **safety**, reliability and security of supply of electricity; and
- (b) the reliability, **safety** and security of the national electricity system.

[emphasis added]

- 21. We consider a national approach to energy safety issues to be beneficial in the context of the transition to competitive metering arrangements. In addition to increasing consumer confidence in energy markets, it will ensure consistency across jurisdictions which would minimise transaction and compliance costs, and minimise/avoid confusion for industry participants and consumers. Importantly, it will support the NEO and the ongoing reforms in the electricity sector.
- 22. We therefore suggest that AEMC or the appropriate agency consider facilitating a national process for the 'safe' operation of the NEM. While we recognise that AEMC, the Australian Energy Regulator, and the Australian Energy Market Operator are economic regulators, a body such as the Energy Council of the Council of Australian Governments might be more suited to initiate this conversation and process.

Concluding comments

- 23. We are happy to discuss with AEMC officials our insights on market competition and safety issues in metering, and our experience in deploying advanced meters in New Zealand's competitive metering market.
- 24. Please contact me if you have any questions or require further information at Luz.Rose@vector.co.nz or +644 803 9051.
- 25. 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