



**Submission to the  
Department of Energy and Water Supply  
on The 30-year electricity strategy Discussion paper**

**6 December 2013**

## **INTRODUCTION**

1. Vector welcomes the opportunity to submit in relation to the Department of Energy and Water Supply's (DEWS) Discussion Paper "The 30-year electricity strategy", dated September 2013.
2. Vector's submission responds to immediate challenges 6 and 7; "Develop a demand management and energy efficiency strategy" and "Enable improvements in metering services", respectively.
3. No part of our submission is confidential and we are happy for it to be publicly released.
4. Vector's contact person for this submission is:

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## **BACKGROUND ABOUT VECTOR**

5. Vector is New Zealand's 5<sup>th</sup> 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.
6. While Vector's current market is limited to New Zealand we are interested in opportunities in other countries such as Australia.
7. Vector is of the view that DEWS should focus on ensuring barriers to commercial roll-out, and competition in the provision, of smart meters are minimised. Queensland should rely on competitive market provision of smart meters, and learn from the hard lessons of the mandated roll-out in Victoria.

## **FACILITATING COMPETITIVE ROLL-OUT OF ADVANCED METERING**

8. Vector believes DEWS is correct to support a "rollout of advanced meters where a range of different service providers can compete to offer customers advanced metering services and associated product choices." We would preface this by saying that metering service providers do not necessarily offer customers advanced metering services directly, but can provide a platform for distributors and retailers to innovate and increase the range of service offerings they provide to consumers. In this way, they can improve efficiency, customer choice and competition.
9. Metering is fundamentally a contestable service. If competition is enabled, it should provide consumers with protection against gold-plated or excessively priced smart meters/smart meter services. If, for example, one supplier attempts to inflate prices, then consumers should have the choice of switching to an alternative supplier.
10. DEWS should focus on ensuring any impediments or barriers to entry by competing meter service providers are removed or avoided.
11. There are various types of potential barriers to roll-out of advanced meters. These include, but are not necessarily limited to, (i) exit fees from existing meter providers; (ii) bundling of metering with monopoly distribution services; (iii) introduction of consumer opt-in arrangements; and (iv) mandated technical specifications for metering that are beyond the service level required.

12. Without transparent (and arms-length) separation of metering, distribution costs and charges, bundling can result in cross-subsidisation from the monopoly distribution service to the metering service. An example of this in Queensland is disconnection costs. Disconnection costs are socialized into line charges and retailers face no disconnection charges. This means retailers adopting smart meters to service consumers would not benefit from the lower costs from remote disconnection using advanced meters.

### **CUSTOMER VERSUS MARKET-LED APPROACH**

13. The Discussion Paper refers to adopting a “customer-driven approach” to roll-out of advanced meters. Vector advocates a market-led approach, with retailers acting as agents for customers, rather than a strict customer-driven model/approach. Either way, care needs to be given to ensuring the approach adopted does not create impediments to competition and market entry by meter providers.
14. The core of the business case for advanced metering is to support the more efficient operation of retail and network business by reducing the cost to serve an energy customer. In order to achieve cost savings, advanced metering needs to be deployed to a reasonable percentage of the customer base.
15. In New Zealand the roll-out of advanced meters has been driven by retailer demand, reflecting that: (i) there are substantial benefits to advanced metering for retailers including considerable operational efficiencies e.g. the ability to undertake remote meter reading; and (ii) the rollout of smart meters has enabled energy retailers to offer innovative services. Retailers have the direct relationship with consumers and treat advanced metering as part of their competitive service offering.
16. Vector’s view is that advanced metering should be deployed on a competitive basis by energy retailers on an opt-out basis (if the concept of opt-out or opt-in is required at all). The basic set of services provided by metering to facilitate the operation of the market needs to be understood. Advanced metering reduces the cost of providing these services and as such they should be deployed at no cost to the customer. What a customer should experience as a result of a smart meter being installed is an improved level of service in the form of more flexible and accurate billing, an increased range of services and more efficient ‘move in/move out’ processes.
17. Vector would suggest that the point of customer engagement on advanced metering, if they are not imposed on customers through mandated roll-out such as in Victoria, is most appropriately in relation to choice of retailer. Different retailers could offer a selection of different competitive offerings, including in relation to advanced meter technology and choice of whether to take-up particular services driven by advanced meter technology e.g. time-of-use tariffs. Should the customer elect to opt-in for a new service (like a demand response product), the cost of this may be passed on to the customer if required.

### **EXPERIENCE WITH COMPETITIVE ROLL-OUT OF SMART METERS IN NEW ZEALAND**

18. While Vector owns an electricity distribution network, 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,<sup>1</sup> not our own AMS business.
19. Metering and smart metering services are provided in New Zealand by electricity retailers, electricity distribution business, and independent meter owners. The provision of metering services is predominantly done through contractual

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<sup>1</sup> <http://www.metrixinfo.co.nz/>

arrangements with retailers, who are responsible for measurement and provision of electricity consumption data.

20. New Zealand is successfully transitioning to advanced metering through a market-led approach.
21. During the last financial year, Vector extended our contract with Contact Energy (a major electricity retailer) to install a further 90,000 meters, and have a new contract to install 38,000 meters for Mighty River Power (another major electricity retailer). Allowing for switching between retailers, this increases our total contracted installations to over 764,000, up from 670,000 a year earlier. This is a sizable number given the relatively small population base of New Zealand.
22. The Electricity Authority<sup>2</sup>, New Zealand's principal electricity market regulator, has observed that:<sup>3</sup>

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).

23. The fact 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. Trying to recoup the cost of wrong business decisions through higher metering service charges will ultimately make the business less competitive, lose market share, or exit the market.
24. As electricity retailers using smart meters have to compete with retailers that do not, the cost of smart metering must be recovered from savings made by the retailer as opposed to an additional impost on the consumer.
25. This obviously contrasts markedly from the experience of consumers in Victoria where the cost of metering to consumers and cost blow-outs have been major issues.
26. The Electricity Authority, in a review of the metering market, stated it:<sup>4</sup>

... 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.

27. The Electricity Authority went on to state:<sup>5</sup>

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.

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<sup>2</sup> [www.ea.govt.nz](http://www.ea.govt.nz)

<sup>3</sup> Paragraph 26, Electricity Authority, Part 10 review: nomination of metering equipment provider and access to metering data, Decisions and reasons, 13 April 2012.

<sup>4</sup> Paragraph 7, Electricity Authority, Part 10 review: nomination of metering equipment provider and access to metering data, Decisions and reasons, 13 April 2012.

<sup>5</sup> 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.

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.