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Australian Energy Market Commission
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Sydney South NSW 1235

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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

Submission on the AEMC's Draft Rule Determination on Multiple Trading Relationships

Introduction

1. This is Vector Limited's ("Vector")¹ submission on the Australian Energy Market Commission's ("AEMC") *Draft Rule Determination*, dated 19 November 2015, on the Multiple Trading Relationships Rule Change ("MTR rule change") proposed by the Australian Energy Market Operator ("AEMO").
2. Vector is making this submission in the context of the ongoing reforms in the National Electricity Market ("NEM"), particularly the expansion of competition in metering and related services to small-to-medium businesses and residential consumers, which takes effect on 1 December 2017.
3. We are currently engaging with potential customers in the NEM's advanced metering market. Market conditions permitting, we expect to install advanced meters in NSW in early 2016.

The AEMC's decision not to make a draft rule

4. We agree with the AEMC's *Draft Rule Determination* not to make an MTR rule change, which reflects the general position of many, if not almost all, submitters. We consider this decision to be highly sensible at this stage of market development in the NEM.
5. We agree with the AEMC's assessment that implementing the proposed MTR rule change would not be in the long term interest of consumers because:
 - MTR delivers some direct cost savings to only a very small subset of consumers who seek to set up very specific MTR arrangements, while all

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

other consumers [*including low income and vulnerable consumers*] are likely to face an increase in electricity retail prices without receiving any benefit.²

- MTR could increase the complexity of retail arrangements, which could erode consumer confidence in the electricity market. New rules would also require new consumer protection mechanisms to address new risks and maintain adequate consumer protection.³ For example, the appropriate arrangements need to be developed to address future retailer insolvencies, where one of the retailers in a premise becomes insolvent but not the other retailer(s).
 - MTR is unlikely to materially reduce market entry costs for new energy service providers, or facilitate innovation and competition in the electricity retail market.⁴
 - Significant changes are required to the IT systems and operational processes of distributors, retailers and AEMO, the costs of which are estimated by Jacobs SKM to total \$29 million.⁵ This excludes the costs of consultation processes and delay in the deployment of advanced meters. Some of these costs would be passed on to consumers.
 - Ongoing *Power of Choice* reforms in the NEM may deliver similar benefits to consumers, such as the *Competition in Metering Rule Change* and more innovative tariffs, which may enable consumers to engage with multiple retailers under existing arrangements.⁶
6. In addition, we consider the introduction of an MTR rule change to be an unnecessary distraction from the fundamental reform in the metering market. The commencement of competitive metering arrangements is already delayed by five months, from 1 July 2017 to 1 December 2017, due to its complexity.
7. The Australian Energy Regulator's unbundling of metering services from DUoS charges is also a highly complex process; overlaying MTR on this ongoing process creates greater regulatory burden, cost and uncertainty without overriding benefits for consumers.
8. Metering technology and solutions are evolving by the day. Additional complex regulations would be inconsistent with the Government's market-led approach to achieving its policy objectives in the electricity sector. This approach is supported by

² <http://aemc.gov.au/Rule-Changes/Multiple-Trading-Relationships/Draft/AEMC-Documents/Multiple-Trading-Relationships-draft-rule-determin.aspx>, page iv

³ *Ibid.*

⁴ *Ibid.*

⁵ <http://aemc.gov.au/Rule-Changes/Multiple-Trading-Relationships/Initiation/AEMC-Documents/AEMC-Consultation-Paper.aspx>, page 32

⁶ <http://aemc.gov.au/Rule-Changes/Multiple-Trading-Relationships/Draft/AEMC-Documents/Multiple-Trading-Relationships-draft-rule-determin.aspx>, page iv

the light-handed *Competition in Metering Rule Change*, where commercial solutions are allowed to develop and adapt to the further evolution of metering technology and consumer expectations.

The ATA-CUAC single meter model

9. We have no issue with the AEMC's assessment that it would be more appropriate for the "single meter model", jointly proposed by the Alternative Technology Association ("ATA") and the Consumer Utility Advocacy Centre ("CUAC"), to be assessed as a stand-alone rule change in the future. This is because the regulatory changes required to implement this model are likely to be extensive and complex.

The single meter model still increases the complexity of metering arrangements

10. While we consider the single meter model to be simpler than the proposed MTR rule change, we believe this model will still increase the complexity, and is likely to compromise the timely commencement, of the *Competition in Metering Rule Change*. The ongoing reform in the metering market is not just a metering issue; it is about delivering significant benefits to consumers in a timely and cost-effective manner.
11. A competitive market, in itself, is a very effective protection for consumers. For example, a retailer in the emerging competitive market would face strong incentives to keep its customers happy, otherwise those customers could switch to another retailer. This could include, for example, that retailer providing data to customers from other data streams at a minimal cost or for free.

The costs of meter conversion

12. Under the single meter model, the consumer would still have to deal with more than one retailer. At this stage of market development, we do not believe the average consumer, or the majority of consumers, prefer to receive more than one electricity bill, i.e. deal with multiple service providers.
13. The conversion of metering installations to conform with the single meter model, and the development of corresponding regulations, are not costless. This could involve amending the global metering settings to establish a hierarchy for change activities, e.g. a settlement owner would have superior rights to device changes in line with that owner's obligations as the financially responsible market participant ("FRMP"). This is likely to require additional meter programming and configuration, including the introduction of a change management protocol between retailers that potentially provides the settlement owner a right of approval, or veto, in order to safeguard settlement accuracy or timeliness.
14. Other costs would come in the form of delays in the delivery of services to customers, for example, where the FRMP requires permission from the other retailer to change

programming, or where agreement of both (or multiple) parties is necessary for a new configuration required by a customer.

15. In the emerging competitive metering market, a 'secondary retailer' could approach a customer's retailer to make arrangements for data supply without setting up a full NEM market rule set to manage that arrangement. In the New Zealand gas retail market, for example, a gas retailer may engage another retailer to supply some of the services in its retail package to a customer. If a customer cannot find a retailer that can supply its preferred services, or bundle of services, it can seek another retailer that does, i.e. 'vote with its feet'.

The costs of additional regulations

16. An AEMO report on the value of customer reliability,⁷ published in 2014, notes that "residential customers are concerned about the rise in electricity prices since 2007-08". The report indicates that "the majority of residential and business customers are satisfied with their current level of reliability and consider it to be of a high standard". This could imply that the costs of additional regulatory proposals, such as MTR or the single meter model, are likely to be borne by consumers without significant improvements in their satisfaction levels.
17. On balance, we have no issue with the AEMC revisiting the single meter model in the future or during the scheduled review of the metering market three years into the introduction of competitive metering arrangements. However, this should only be undertaken where there are indications that this model will deliver greater competition and consumer benefits than what the emerging competitive metering market is capable of delivering.

Concluding comments

18. In light of the AEMC's *Draft Rule Determination*, we reiterate our call on regulators and industry to focus on ensuring the fundamental shift to a competitive metering market is not further delayed by rule changes that are likely to impose significant costs on industry and consumers without delivering widespread consumer benefits.
19. We are happy to share with AEMC officials our experience in the competitive New Zealand metering market, particularly its successful transition to advanced metering, without having to adopt complex regulatory arrangements such as MTR.
20. Please contact me if have any questions or require further information at +644 803 9051 or Luz.Rose@vector.co.nz.

⁷ <http://www.aemo.com.au/Electricity/Planning/Value-of-Customer-Reliability-review>, final report, page 1

21. 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

A handwritten signature in black ink, appearing to read 'Luz Rose', with a long, sweeping tail stroke extending to the right.

Luz Rose

Senior Regulatory Specialist