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

15 May 2015

Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

By email: TASelectricity2017@aer.gov.au

Dear Mr Pattas

Submission on the AER's Preliminary Positions on TasNetworks' Replacement F&A

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Australian Energy Regulator's ("AER") *Preliminary positions on replacement framework and approach (for consultation) for TasNetworks Distribution for the Regulatory control period commencing 1 July 2017* ("the consultation paper"), dated April 2015.

2. We welcome the AER's decision to replace the Framework & Approach ("F&A") for electricity distribution in Tasmania for the next regulatory control period. In our view, this is appropriate and necessary in light of ongoing reforms in the electricity sector, including the proposed rule change expanding competition in metering services in the National Electricity Market ("NEM").

3. As a provider of metering services, among other energy and telecommunications services, we are actively seeking commercial opportunities in the Australian smart metering market. This submission therefore focuses on our interest in seeing greater competition in the metering market, and regulatory and market settings that provide the right incentives for investment in the smart metering market.

4. This submission is informed by the AER's final determinations for electricity distribution in NSW and ACT for the 2015-2019 regulatory control period, released on 1 May 2015.

5. No part of this submission is confidential and we are happy for it to be made publicly available.

6. Vector's contact person for this submission is:

Luz Rose
Senior Regulatory Analyst
Luz.Rose@vector.co.nz
+644 803 9051

Metering exit fees – recovery of residual capital cost

7. Vector has been consistent in its support for the expansion of competition in metering services in the NEM. A competitive market delivers benefits to consumers through downward pressure on prices, greater choice of products, and better quality services from their providers.

8. A key barrier to competition in the metering market is the imposition of upfront "exit fees" for the replacement of legacy meters with smart meters. This issue has been widely discussed in the AER's F&A consultations and workshops in other NEM jurisdictions. Our previous submissions to the AER, the Australian Energy Market Commission, and other Australian regulators argued for the removal of exit fees.

9. Exit fees create a barrier to entry, limiting market competition and hampering the deployment of smart meters to small businesses and residential consumers. As such, their imposition could frustrate the Government's policy objective of promoting demand side participation in the electricity sector enabled by smart meters.

10. Furthermore, exit fees create a significant disadvantage for a first mover into the market, who would have to bear the cost of the exit fee that subsequent entrants do not have to — an outcome that is inefficient and unfair.

11. While we oppose the imposition of exit fees, we recognise that distributors should be able to recover the efficient cost of their metering investment approved by regulators. We therefore support the AER's statement in the preliminary F&A paper for TasNetworks that:

> There is a clear intent of policy makers to see a competitive metering market develop in the NEM and we recognise that exit fees represent a significant barrier to this market. We have sought to reduce this barrier by classifying metering services, as alternative control services, in a way that allows for the recovery of the distributor's sunk residual capital costs of a meter from all customers.[1]

12. We note that the AER has since released its final determinations for electricity distribution in NSW and ACT for the 2015-2019 regulatory control period. We welcome the AER's decision to remove exit fees for the next regulatory control

[1] Consultation paper, page 37

period, and allow distributors to recover the "residual capital cost" of their legacy meters through an alternative control service.

13. We agree with the AER's assessment that its final determinations for NSW and ACT remove a primary barrier to competitive entry by not imposing exit fees, and remove concerns about first mover disadvantage.[2] We therefore broadly support these determinations and reasonably expect the AER to apply similar settings in its determination for TasNetworks for the next regulatory control period.

Administration fee

14. We further welcome the AER's decision not to approve an "administration fee" (or "meter transfer fee") proposed by NSW and ACT distributors for the next regulatory control period. Similar to exit fees, administration fees are effectively a barrier to entry that would stifle market competition.

15. We support the AER's disapproval of administration fees in its final determination for ActewAGL, which is similarly reflected in the NSW final determinations. The AER states:

> We do not approve ActewAGL's proposal to recover administration costs relating to customers transferring to alternative metering providers through an exit fee.[3]
>
> We find that customers would not be paying an efficient level of costs for meter churn if the distributors' proposed transfer fees were approved. A meter transfer fee of the order proposed by ActewAGL ($30.79) could amount to a de-facto exit fee that would act as a barrier to competition and the uptake of new advanced meters.[4]

16. We agree with retailers' observation that administration functions required when customers transfer to another provider are already part of distributors' standard business practice:

> Retailers submitted that any activities undertaken by the distributors was no different from existing data entry/system management functions undertaken as part of normal business practice and that any incremental costs associated with 'administration' would be absorbed by the entity acquiring the metering customer.[5]
>
> We do not agree with the distributors' position that…an increase in staff will be required within the regulatory periods commencing 1 July 2015.[6]

---

[2] Australian Energy Regulator. FINAL DECISION ActewAGL distribution determination 2015-16 to 2018-19, Attachment 16 – Alternative control services, page 16-41
[3] *Ibid.*, page 16-51
[4] *Ibid.*, page 16-55
[5] *Ibid.*, page 16-51
[6] *Ibid.*, page 16-55

…We find that there are no additional tasks or functions these distributors will have to assume when customers change meter provider. Thus there are no incremental costs.[7]

17. Retailers further observe that in similar markets, distributors are not charging them administration fees for meter transfers. For example:

> Simply Energy observed…that [in the competitive market for large metering customers] distributors were not currently charging them a meter transfer fee where the customer switched from the distributor to the retailer as metering provider.[8]

> …it is noteworthy that distributors are churning type 6 meters for interval meters for customers installing Solar Photovoltaic systems in large numbers without imposing any administrative fees for the meter transfer.[9]

18. Vector's sentiment that metering service providers will likely bear the cost of meter churn in a competitive market is reflected in the AER's final determinations for NSW and ACT:

> We…consider that it will be the metering service provider, as the financially responsible market participant, who will bear the additional costs associated with meter churn, not the distributors.[10]

> …Alternative meter service providers can now, and will in the future, undertake many of these tasks…Vector says this is how it operates in the market today and did not see why distributors should not do the same…Vector could not anticipate what incremental costs would arise as a result of competitive metering.[11]

19. We agree with the AER that retailers in a competitive market have strong incentives to keep costs down to succeed commercially:

> …The retailer has an incentive to keep those costs down and to work with the business that has lost the customer…to ensure smooth market operation. This has been the case since the inception of the national electricity market for large customers. We do not find that the costs proposed by the distributors are reflective of this cost minimisation incentive.[12]

20. Again, it is reasonable to expect that the AER will apply to TasNetworks settings similar to those it applied to NSW and ACT distributors for the next regulatory control period. These settings provide potential investors the right incentives to

[7] Australian Energy Regulator, *op.cit.*, page 16-51
[8] *Ibid.*, page 16-52
[9] *Ibid.*, page 16-55
[10] *Ibid.*
[11] *Ibid.*, page 16-54
[12] *Ibid.*, page 16-53

enter the metering market in Tasmania. In such case, it is investors who carry the risk of the investment rather than Tasmanian consumers or taxpayers.

Concluding comment

21. We are happy to discuss with AER officials any aspect of this submission.

Yours sincerely
For and on behalf of Vector Limited

Richard Sharp
Head of Regulatory