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Submission on the Proposed Design for the New Rule Change Assessment Panel

Introduction

1. This is Vector Limited's ("Vector") submission on the Steering Committee's *Position Paper – A Proposed Design for the New Rule Change Assessment Panel*, dated 6 July 2015.
2. Vector is one of New Zealand's largest listed companies and the country's largest electricity distribution business, 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 communication networks in Auckland and Wellington.
3. We are seeking commercial opportunities in Australia's advanced metering market, including in Western Australia ("WA"). We are actively participating in the consultations related to 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 will take effect across the NEM on 1 December 2017.
4. No part of this submission is confidential and we are happy for it to be made publicly available.

Proposed design for the new Rule Change Assessment Panel

5. We broadly support the Steering Committee's proposed design for the new Rule Change Assessment Panel ("the Panel"), which focuses on addressing conflicts (or perceived or potential conflicts) of interest, and promoting transparency. We agree

that these are essential for the effective governance of the Wholesale Electricity Market rule change process that would facilitate reform in this market.

Panel membership

6. We agree with the Steering Committee's proposal to appoint three Standing Members from government/regulatory agencies to the Panel, which ensures its size and costs are kept to a minimum. However, we believe that non-standing memberships should be open to industry representatives or those with extensive industry knowledge and experience. Industry participants are best placed to determine the most cost-effective commercial solutions (i.e. what they are willing to pay for) because of their direct exposure to market forces. The incentives on industry participants, who will bear the immediate costs of implementing and complying with the new market rules, to make more efficient decisions are likely to be stronger than the incentives on regulators.
7. While concerns around 'conflicts of interest' in the above proposal may understandably be raised, these can be mitigated by having various (and sometimes conflicting) interests represented on the Panel. The costs (or part of the costs) of implementing the new market rules will ultimately be borne by end consumers of electricity in WA. As indicated above, industry representatives will have sufficiently strong incentives to ensure that Panel decisions would deliver net benefits to, instead of imposing costs on, industry participants and consumers.
8. In connection with the above suggestion, we **recommend** that the new Panel include a non-standing member who has extensive experience and expertise in advanced/smart metering or new technologies in the electricity sector and in-depth appreciation of their role in the emergence of new or disruptive business models. This supports the view we expressed in our submission to the Department of Finance on the *WA Electricity Market Review*, dated 12 September 2014, that given advanced metering's central role as an enabling and critical infrastructure to improving efficiency and delivering innovative services in WA's electricity sector, we believe it should be at the forefront, not at the 'tail-end', of the reform process.

Approach for reform

9. The *Electricity Market Review* signalled the introduction of competition in metering services in WA, which we welcomed. A competitive market benefits consumers through downward pressure on prices, greater choice, and better services.
10. While we have no doubt that the Western Australian government is watching the reform process in the NEM with interest, we encourage the Steering Committee and the incoming Panel to consider the policy approach adopted by the Australian Energy Market Commission ("AEMC") in reforming the metering market in the NEM. We generally supported the AEMC's *Draft Rule Change* expanding competition in the NEM metering market, which exercised restraint by leaving most of the proposed arrangements to commercial negotiations and the rapidly evolving

metering market. We consider a 'light-handed' approach to be consistent with one of the key objectives of WA's *Electricity Market Review*, which is to "reduce the government's exposure to market risks".

11. We also generally supported the Australian Energy Regulator's ("AER") *Final Decisions* for the regulatory resets for electricity distribution in NSW and ACT for 2015-2019 in relation to metering services, which rejected proposals to impose metering "exit fees" and meter "transfer fees" that would create barriers to market entry and competition and the rollout (or timely rollout) of advanced meters. We note that the AER's *Preliminary Decisions* for the regulatory resets for electricity distribution in Queensland and South Australia for 2015-2020 also reflect these decisions.
12. We believe that removing barriers to market entry and the commercial rollout of advanced metering is appropriate for the emerging competitive metering market in WA. Importantly, this enables greater efficiency in the WA electricity market, supporting another key objective of the *Electricity Market Review* – that of achieving "lower costs in the...supply of electricity", which benefit WA consumers.

Concluding comments

13. We are happy to discuss with the Steering Committee or Department of Finance officials our experience with the ongoing reforms in the NEM, including governance issues relating to the transition to competitive arrangements, and our experience in New Zealand's competitive advanced metering market.
14. Please contact me if you have any questions or require further information at +644 803 9051 or Luz.Rose@vector.co.nz.

Yours sincerely
For and on behalf of Vector Limited



Luz Rose
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