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**Vector Limited**  
101 Carlton Gore Road  
PO Box 99882, Newmarket  
Auckland 1149, New Zealand  
[www.vector.co.nz](http://www.vector.co.nz)  
Corporate Telephone  
+64-9-978 7788  
Corporate Facsimile  
+64-9-978 7799

Competition Policy Review Secretariat  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Submitted online: [www.competitionpolicyreview.gov.au](http://www.competitionpolicyreview.gov.au)

## **Submission on the Competition Policy Review Draft Report**

### **Introduction**

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on The Treasury's *Competition Policy Review Draft Report* ("the Draft Report"), dated September 2014.
2. We agree with the Review Panel's view that competition policy should, among other objectives, make markets work in the long-term interests of consumers, encourage innovation and the entry of new players, promote efficient investment in and use of infrastructure, and establish competition laws and regulations that are clear, predictable and reliable.
3. In particular, we agree with the Review Panel upholding the principle of competitive neutrality, which also has the overwhelming support of stakeholders.
4. No part of this submission is confidential and we are happy for it to be made publicly available.
5. Vector's contact person for this submission is:

Luz Rose  
Senior Regulatory Analyst  
[Luz.Rose@vector.co.nz](mailto:Luz.Rose@vector.co.nz)  
+644 803 9051

### **Vector's businesses**

6. Vector is one of New Zealand's largest listed companies and the country's largest electricity distribution network, 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 services, electricity and gas metering services, and fibre optic broadband communications networks in Auckland and Wellington.

7. Our metering business, Advanced Metering Services ("AMS"), is New Zealand's leading smart meter provider. AMS is almost three-quarters of the way through the rollout of close to one million smart meters that we have been contracted to supply to retailers in the New Zealand electricity market.
8. Vector is in a unique position as the only electricity distribution company in New Zealand that has also successfully contracted with retailers to roll out smart meters on a national basis. The main metering provider on Vector's distribution network, however, is Metrix, another New Zealand provider, rather than AMS. This reflects the competitive nature of the New Zealand metering market, and allows us to see metering issues from more than a single market dimension.
9. While Vector's current market is limited to New Zealand, we are seriously considering commercial opportunities in the Australian smart metering market and are in the process of applying for accreditation from the Australian Energy Market Operator.

#### **The benefits of a competitive metering market**

10. We agree with the Review Panel that "[t]he application of competition policy to infrastructure markets significantly affects the choices and prices paid by consumers for almost all of goods and services. The energy, water and transport sectors are key inputs to the Australian economy" (page 117 of the Draft Report).
11. We note the Review Panel's acknowledgement that significant progress in the reforms of the electricity, gas and water sectors in Australia has been made, however, those "reforms have not been finalised and the benefits are yet to be fully realised" (page 36).
12. The Australian Energy Regulator ("AER") is considering regulatory arrangements that take into account the expansion of competition in metering services in the National Electricity Market ("NEM") for the next regulatory control period (2014/15/16 – 2018/19/20). We are engaged with this ongoing process.
13. We consider the introduction of competition in the metering market to be in line with the promotion of competition policy and the long-term benefit of consumers. Electricity consumers in Australia would benefit through:
  - the entry of multiple providers, which would exert downward pressure on prices over time. We note the rule change request by the Standing Council on Energy and Resources (now the Council of Australian Governments Energy Council), which is intended to provide competition in metering and

data services in the NEM.<sup>1</sup> This implies that metering will eventually be provided not only by distributors but also by retailers, meter owners, or even end users;

- *better services*, as competing metering service providers make more attractive offers to obtain or retain customers. Less regulation and greater competition incentivise service providers to focus on improving services to their customers that differentiate themselves from other providers, rather than focusing on regulators and regulatory compliance;
- *greater choice for consumers*, who will have the choice of alternative service providers. Consumers face better tariff choices, and can choose a service that most closely suits their unique circumstances and gives them greater control over their energy expenditure. In a competitive market, consumers can easily switch providers or 'vote with their feet';
- *incentives to invest* in the metering market. A more open, dynamic and competitive market would attract interested parties who believe they can provide better offerings than those existing in the market. This supports one of the Review's objectives for competition policy, which is "promoting efficient investment"; and
- *product and service innovation* – Metering markets internationally, including in New Zealand, are undergoing rapid change due to the extensive deployment of smart meters which enable more innovative services (including more innovative retail tariffs). A competitive metering market allows the entry and application of various technologies that meet the varying requirements of consumers.

14. Our submission to the Australian Energy Market Commission on consumer access to electricity consumption information, dated 5 June 2014, agreed in principle that consumers should be able to access such information from their electricity distributor or retailer. We agree this would "encourage demand side participation... and incentivise consumers to behave in their long-term interest, for example, by switching to another retailer that provides more competitive or better quality services".<sup>2</sup> "This would also promote a more dynamic and efficient electricity market, where service providers are constantly striving to win (or win back) the favour of consumers by continuously providing new and innovative services and improving the efficiency of their operations".<sup>3</sup>

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<sup>1</sup> <http://www.scer.gov.au/workstreams/energy-market-reform/demand-side-participation/smart-meters/metering-services/>

<sup>2</sup> Vector Limited (2014). *Submission on Consumer Access to Electricity Consumption Information*, Submission to the Australian Energy Market Commission, 5 June 2014, page 2

<sup>3</sup> *Ibid.* Our submission further suggests that "[t]here should...be limits to the amount of consumption information that consumers can obtain for free. Service providers should be allowed to recover the costs of providing information where these are high. This would minimise inefficiency in the form of other consumers 'subsidising' those who obtain information at no cost to themselves" (page 2).

## The benefits of smart meters

15. As a provider of new technology, we welcome the Review Panel's recognition of the importance of capturing the benefits of new technology "by ensuring that competition policies, laws and institutions do not unduly obstruct its impact yet still preserve traditional safeguards for consumers" (page 4 of the Draft Report).
16. We further welcome the Review Panel's acknowledgement of the benefits of smart meters (page 14), which are now widely recognised. While there are differing views on the magnitude of the benefits and when they are realised, there is widespread recognition that smart meters deliver:

- *Energy efficiency gains*

As reported by the Energy Retailers Association of Australia, "[s]tudies have shown that smart meter programmes (with communications technology that provides clear feedback to consumers) have delivered savings of 5 to 15 per cent and sometimes even as high as 20 per cent".<sup>4</sup>

Time-of-use tariffs, enabled by smart meters, provide consumers with near real-time information about their technology consumption. This allows consumers to alter their consumption patterns to reduce energy expenditure, for example, by consuming more electricity during off-peak times when it costs less.

- *Greater consumer choice*

Consumers have greater ability to control their consumption behaviour to suit their particular energy demands or to obtain better value for money. This also facilitates demand side participation in the electricity market.

- *Reduced costs*

Smart meters enable meter providers to read consumers' consumption remotely and in near-real time, reducing operational costs and billing inaccuracies which are all too common under periodic meter readings.

- *Cost reflective prices*

The Department of Industry's *Energy Green Paper*, issued in September 2014, notes that under existing arrangements in the electricity market, "consumers who have lower energy use during peak times, and therefore lower impact on network costs, are subsidising those that have higher peak energy use".<sup>5</sup> By enabling more accurate and timely measurement of

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<sup>4</sup> [http://eraa.com.au/wp-content/uploads/ERAA\\_WP1-Benefits-of-smart-meters.pdf](http://eraa.com.au/wp-content/uploads/ERAA_WP1-Benefits-of-smart-meters.pdf), page 3

<sup>5</sup> <http://www.ebp.industry.gov.au/pages/energy-green-paper>, page 28

energy consumption, smart meters can facilitate initiatives to promote cost-reflective prices.

- *Network and public benefits*

Smart meters enable intelligent/smart grids by enabling two-way communication between the meter and the network's central system. This provides distribution networks the capability to detect faults more accurately and in a timely manner. Quick outage recovery increases networks' ability to reduce repair costs or defer costly new network investment.

The increased ability of networks to respond quickly to outages or emergency callouts also has positive implications for public health and safety.

### **The competitive provision of smart meters**

17. New Zealand is successfully deploying smart meters through market mechanisms. The provision of metering services is predominantly achieved through commercial arrangements between metering providers and retailers, who are responsible for measurement and provision of electricity consumption data. This market-led model has seen the rapid rollout of smart meters across the country over the past few years.
18. Vector's metering business, AMS, has installed more than 726,000 smart meters nationwide as at October 2014. We have done this with only (approximately) 1% customer refusal rate, 0.05% customer complaints, and close to zero (0.003%) health and safety incidents.
19. The impact of the rollout on New Zealand consumers has been benign, requiring only minimal engagement with them. Because the benefits to retailers outweigh the costs of the meters, consumers do not have to pay more for their smart meter. Retailers are able to address consumer complaints directly, as they have direct relationships with consumers. As such, New Zealand consumers have not suffered problems similar to those experienced by consumers in Victoria, where a mandated rollout resulted in cost blowouts and consumer backlash.
20. We believe the value of smart meters is best delivered under a competitive metering market. The discipline of the market enables multiple market participants with varying commercial offerings and deploying different technological innovations to come into 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.
21. In addition, the competitive provision of smart meters means that meter owners, rather than consumers, face investment risks and the risk of poor technology

choice. Meter owners picking the wrong technology are likely to suffer from higher metering charges (to recoup higher costs) and would become less competitive, lose market share or exit the market.

22. While we recognise that transitions to new technologies can be challenging and are not costless, the New Zealand experience highlights that it is possible to have competitive market arrangements and positive business cases that meet consumer expectations at the same time.
23. We therefore support a market-based approach to any proposal to introduce smart metering in Australia, preferably led by retailers. We do not believe a mandated rollout would achieve the Review's competition policy objectives.
24. A mandated rollout can result in higher costs for consumers and transfers technology risks from metering providers to consumers. This approach does not focus on or unlock the primary smart meter benefits available to retailers; hence, the costs are unnecessarily borne by consumers.
25. We believe that regulation should keep pace but should not impede the introduction of new, more innovative, and more efficient technologies. We therefore welcome the NSW Government's recent policy announcement of adopting a market-led rollout of smart meters to **promote competition** and a "voluntary model" to ensure consumer choice.<sup>6</sup>

### **Regulatory principles**

26. To ensure that reforms in the metering services market would achieve the objectives of competition policy, we suggest that regulators adhere to the following guidelines in the development of any smart metering policy:

- *Uphold competitive neutrality*

Smart metering services should be able to be provided by various parties, by incumbents and new entrants alike. These could possibly include retailers, distributors, independent meter owners, or even end users.

We note the "overwhelming support from stakeholders for the principle of competitive neutrality" and support the "calls for Australian governments to re-commit to competitive neutrality policy" (page 35 of the Draft Report). "Competitive neutrality policies benefit consumers in markets where both governments and other providers deliver services" (page 35).

We further note the Review Panel's observation that "[t]he introduction of competitive neutrality and the application of the CCA to government

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<sup>6</sup> <https://www.businessspectator.com.au/news/2014/10/28/energy-markets/nsw-back-voluntary-smart-meter-rollout>

businesses encouraged private businesses to invest and compete alongside government-owned businesses” (page 117).

- *Eliminate barriers to competition*

Mandating specific functions, or the addition of new functions to the meter, could be costly for consumers who may not want or need those functions.

Barriers could also be created by imposing costs on new entrants, for example, by charging “exit fees” for the replacement of legacy meters with smart meters. The imposition of exit fees and cost recovery by distributors of the residual value of their legacy meters are being considered by the Australian Energy Regulator (for the NEM states).

- *Avoid harm to consumers*

Consumers should not pay more than the value to them of the smart meter. If any rollout is on a commercial/voluntary basis, and consumers do not have to pay higher charges for the upgrade or displacement of their meter, then issues around consumer acceptance should not be as prominent as they had been in Victoria.

- *Ensure technological neutrality*

Market competition could be stifled by highly prescriptive technological standards that lock out from the market parties that do not use, or intend to use, the same standards.

The Review Panel itself cites the Hilmer Review, which noted “the risks of standards raising barriers to entry – especially where they are incorporated into legislation and mandate particular technologies or systems rather than performance outcomes” (page 101).

In our view, regulators should avoid picking technological winners or prescribing smart metering functionalities. Picking technology winners is best left to those who take the investment risks, rather than consumers bearing the cost of poor technology choice by their providers or by regulators.

We do not have any issues with the setting of minimum levels of metering service standards, which protect and benefit consumers. However, mandating the use of specific technological/technical standards or functionalities could result in inefficient outcomes that do not benefit anyone. For example, this could result in the provision of services that do not keep pace with technological developments or that consumers do not need or value.

We prefer the development of guidelines rather than mandated technical standards or functionalities. Meter functionality should be driven by retailer innovation and the incentive to attract new customers or customers from competitors. This, in turn, would deliver benefits to Australian consumers through lower prices, greater choice and better services.

### **Concluding comments**

27. In the energy market, particularly in the fledgling smart metering market, we believe that the objectives of competition policy are best served by ensuring that barriers to the commercial rollout and competitive provision of smart metering services are minimised.
28. As competition develops in the metering market, the need for regulation should fall away.
29. We are happy to discuss with Treasury officials any aspect of this submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'I. Ferguson', written in a cursive style.

Ian Ferguson  
**Regulatory Policy Manager**