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Submission on the South Australian Policy for New and Replacement Electricity Meters

Introduction

1. Vector Limited ("Vector") welcomes the opportunity to make this submission on the Department for Manufacturing, Innovation, Trade, Resources and Energy's ("DMITRE") discussion paper, *South Australian Policy for New and Replacement Electricity Meters*, dated January 2014.

2. Vector is one of New Zealand's largest listed companies. We provide services in the New Zealand electricity, gas and telecommunications sectors. Our metering business, Advanced Metering Services ("AMS"), is New Zealand's leading smart meter provider.

3. While our operations are currently limited to New Zealand, we are investigating commercial opportunities in the South Australian smart metering market.

4. Vector supports DMITRE's objective of accelerating the installation of smart meters so that market participants can offer innovative services to South Australian consumers. We agree with the benefits of smart meters that DMITRE outlines in the discussion paper. However, we do not support DMITRE's proposed policy of requiring the installation of 'smart ready' meters by default where a new or replacement meter is required.

5. We believe that a market-led rollout of smart meters, rather than a mandated approach, would provide the right incentives for competition, innovation and investment, which would benefit South Australian consumers. This approach would be consistent with the Australian Government's market-led approach for the development of the electricity sector. We have seen the benefits of this approach in the competitive New Zealand metering market.

6. We set out below our responses to specific questions in the discussion paper.

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

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

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Question – New and Replacement Policy

1 Do stakeholders consider such a new and replacement policy is necessary to reach a sufficient critical mass of advanced meters that will allow customers to have access to associated products and services that will provide benefits to them?

9. Vector does not believe DMITRE's proposed policy for new and replacement meters is necessary to facilitate the deployment of smart meters in South Australia. We believe it would instead produce unintended outcomes that would not support the Australian Government's market-led approach for the development of the metering market and the electricity sector.

10. The proposed policy effectively mandates a particular type of smart metering technology, i.e. the technology preferred by the distributor or that is compatible with the smart ready meter, which may well not be preferred by any future smart meter providers in South Australia. This would 'lock out' market participants and potential investors who intend to use alternative smart metering technologies, creating a barrier to market entry that would limit competition.

11. Mandating meters to be smart ready would also stifle technological and service innovation. It would not provide meter service providers with the right incentives to introduce more efficient and innovative services to the market. On the contrary, it could make them more regulator-focused rather than effective competitors and innovators, striving to meet the requirements and expectations of consumers.

12. Importantly, the proposed policy is likely to raise exit fees as the cost of deploying the smart ready meters would need to be recovered should these meters be displaced through competition. This would risk creating a significant barrier to market entry in the form of an increased legacy asset base which SA Power Networks will seek to recover. This could further delay the deployment of smart meters, resulting in consumers not benefiting in a timely manner from the more efficient and innovative services enabled by smart meters.

13. In our view, exit fees should be minimised, or preferably, avoided altogether. A way to achieve this would be to enable SA Power Networks to deploy low-cost traditional meters until such time that competition in metering services emerges in South Australia. This will keep the cost of the metering assets that the utility needs to recover at a lower level than if the utility were to upgrade their meters to be smart ready.

14. Introducing smart ready meters will not reduce the cost of any future smart meter rollout as it is generally just as cost-effective to replace the entire meter as it is to install a communications pack.

15. A prescriptive policy could also raise costs for consumers. For example, there are hard lessons that can be learned from the state of Victoria, where a mandated rollout of smart meters generated cost blowouts and consumer consternation.

16. Overall, it is our experience that the intervention, as proposed, is unnecessary and will increase the costs of eventual rollout of smart meters in South Australia. A better approach would be to create conditions for the metering market to deliver solutions that consumers want. This can be done by making the South Australian metering market fully competitive, enabling retailers and other market participants to contract with smart meter providers that can provide products that deliver their consumers' needs.

17. Vector believes that a market-led approach would provide the right incentives for competition, innovation and investment. This approach is advocated by the Power of Choice review and is reflected in the Standing Council on Energy and Resources' ("SCER") change request to amend the National Electricity Rules ("NER") to enable greater competition in the metering market.

18. Vector understands the Australian Energy Market Commission ("AEMC") will consult on its proposed changes to the NER, following the SCER rule change request. We suggest that DMITRE put on hold any proposed policy in relation to smart meters until the Rule changes have been consulted on, debated and finalised.

19. Market participants in South Australia and potential investors from outside the state or Australia would benefit from policy consistency across regulators and jurisdictions. This would reduce confusion and avoid the costs of having to comply with different policies that may apply in different states.

Question – How will smart ready meters be defined?

2 Do stakeholders have any comments on definition of smart ready meters, including the functions to be available on installation and retrofit?

20. We do not believe the proposed policy is necessary, hence, we do not see the need for a definition of a smart ready meter. There is no generic smart meter and defining a technology that is rapidly evolving would be challenging anyhow. The meter cannot be broken down into components in an efficient way.

21. In Vector's experience, convergence is beginning to occur between the meter and the communications system that is reducing the cost of the entire infrastructure. The concept of a smart ready meter could undermine any efficiencies that could potentially be achieved from this growing convergence.

22. We understand that a key benefit of the proposal is that a smart ready meter would measure electricity usage on a half-hourly basis, allowing innovative tariffs to be offered. However, we do not believe this benefit will be realised because the smart ready meter cannot be read remotely. This means the meter would need to be read at, say, three monthly intervals. The benefit of time-of-use tariffs is that they provide incentives to consumers to adjust their consumption patterns, preferably in real or near-real time, in response to price signals. We do not believe that consumers are likely to respond to half-hourly price signals if they only see the effect of the price signal on their bill three months after the event.

23. Instead of prescribing smart ready meters, DMITRE should focus on identifying, removing and avoiding unnecessary barriers to market entry and competition. It should support an environment that would enable commercial solutions to be developed.

24. As a competitive metering market is developed in South Australia, the need for prescriptive policies should fall away.

Question – Benefits of Advanced Metering

3 Does the proposed new and replacement policy provide sufficient certainty of future residential metering and infrastructure to enable stakeholders to offer innovative products and services at the commencement of the regime?

25. The proposed policy is unnecessary to ensure market participants are able to offer innovative products and services enabled by smart meters. By 'locking in' smart meter providers to a particular technology path, the proposed policy would impair their flexibility to adopt the most cost-effective technology without compromising service quality.

26. Vector believes the proposed policy could undermine investment incentives. Under this policy, smart ready meters will be deployed only when new and replacement meters are required and will only be upgraded to be fully smart at the request of individual consumers.

27. In our experience in New Zealand, a deployment is most efficient and cheapest when it is done *en masse* across an area. This approach requires installers to visit a street only once, rather than visiting it separately every time a meter needs to be replaced. Deploying at times of replacement greatly advantages the incumbent meter provider and significantly reduces the chance of developing a competitive metering market in South Australia.

28. Also, it is not clear how many, if any, consumers will actively choose to upgrade their meters to be fully smart. This uncertainty may reduce the amount of investment participants make in smart metering technology in South Australia. Even where it is in consumers' interests to upgrade to a "fully smart meter", the transaction costs of upgrading (i.e. arranging for this to happen and, in some cases, arranging for access to the property) may deter consumers from doing this.

29. Vector suggests that DMITRE look into New Zealand's smart metering market, a good example of a market that is operating competitively without the need for mandated technologies or technical standards. The New Zealand Government and the Electricity Authority (the electricity market regulator) have not found it necessary to regulate metering as market arrangements are working effectively.[1] New Zealand's market-led model has enabled the rapid rollout of approximately 1.1 million smart meters (55% penetration) over the past few years at no additional cost to consumers. Retailers are funding the rollout in order to reduce costs associated with meter reading and to provide improved services to their customers.

Question – Opt-out clause

4 Do stakeholders have any comments on the new and replacement policy providing customers with the ability to opt out of having advanced metering installed?

30. Vector does not have any objection with providing consumers the ability to opt out of having a smart meter installed in their premises. Consumers should also have the ability to switch retailers without differences in technology getting in the way.

Question – Meter Reversions

5 Do stakeholders consider the disallowing of meter reversions sufficient to provide certainty that there will be no significant reduction in the installed base of smart ready meters, once the policy has commenced?

31. As stated above, Vector believes a policy mandating meters to be smart ready is unnecessary. This would also make a policy on meter reversions unnecessary.

[1] Electricity Authority (2012), Nomination of MEP and access to metering data – Decisions and reasons, 13 April 2012, Wellington, http://www.ea.govt.nz/dmsdocument/12837

32. We believe that once consumers see the benefits that smart meters bring, the issue of meter reversions would diminish in significance.

Question – Communications Strategy

6 Do stakeholders have views on how the Government's policy for new and replacement electricity meters would be best communicated to customers?

7 Are there certain categories of small customers that should be the focus of the communications strategy? Are there particular communications mediums that are best suited for these customer groups?

8 What information should be provided to customers regarding their new meter prior to it being installed?

33. Our experience in the New Zealand metering market indicates that effective competition provides strong incentives for market participants to advertise their service offerings to consumers or particular groups of consumers through the most effective communications media available. DMITRE should focus on enabling greater competition in the metering market, rather than developing and implementing its own communications strategy. In a competitive market, consumers have the benefit of being able to choose the provider, pricing plan, or service(s), including smart metering services that would best suit their needs and pricing preferences.

34. What DMITRE can do to promote consumer awareness and trust is to enable efficient consumer access to information on the offerings available in the market, i.e. reduce the information asymmetry between service providers and consumers. For example, in New Zealand, the Electricity Authority's "What's my number?" campaign enables consumers to easily compare and switch retailers. This has increased consumers' propensity to switch to retailers that provide better deals.[2]

35. A review of the "What's my number?" campaign, released in September 2013, shows that:

- since its launch in 2011, almost 780,000 New Zealanders have shopped around for a better electricity deal;
- during 2012, there were 24,209 additional switches over those recorded prior to the campaign;
- New Zealanders saved an estimated NZ$4.24 million through switching in 2012; and
- consumers surveyed during 2012 had a high propensity to switch, with 82% realising they can switch suppliers, 73% saying it is worthwhile reviewing electricity providers and 70% agreeing it is easy to switch.[3]

[2] http://www.ea.govt.nz/about-us/media-and-publications/media-releases/2013/september/
[3] Ibid.

Our New Zealand experience

36. We are happy to share with DMITRE officials and staff our insights and experience in the competitive New Zealand metering market, where the rapid deployment of smart meters was made possible without a policy mandating meters to be smart ready.

Yours sincerely

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