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Dear Craig,

## TRUSTPOWER SUPPLEMENTARY SUBMISSION: ENABLING MASS PARTICIPATION IN THE ELECTRICITY MARKET

### 1 Introduction and context

- 1.1.1 We wish to make some supplementary comments in response to the following statements in Vector's submission on the Electricity Authority's *Enabling Mass Participation in the Electricity Market* consultation paper<sup>1</sup>:

*While smart meter penetration at a national level is at 75 percent, there are some regions in New Zealand where the penetration is significantly lower. **The low regional penetration appears to have the characteristics of an incumbent retailer strategy looking to "lock-out" competition.** Accordingly, for New Zealand to reach a higher percentage of smart meter penetration, such behaviour must be addressed.*

*This issue is not based on speculation but the experience of two new energy retailers looking to expand their customer offering.* [Footnote: Susan Edmonds, Electricity newbie says big player stifling competition by sticking with old-style meters, 1 April 2017: <http://www.stuff.co.nz/business/91046057/Electricity-newbie-says-big-player-stifling-competition-by-sticking-with-old-style-meters>]

*Vector recommends the Authority consider what measures it can take to further accelerate the smart meter roll-out to the remaining parts of New Zealand's*

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<sup>1</sup> Vector submission to Electricity Authority's *Enabling Mass Participation in the Electricity Market* consultation paper, paragraphs 31-32. Available online at <http://www.ea.govt.nz/dmsdocument/22353>.

*population, ensuring customers are not missing out on the innovation this technology enables. (our emphasis added)*

- 1.1.2 Of all electricity retailers in New Zealand, Trustpower has the lowest proportion of its customers on smart meters<sup>2</sup>, at around 34% (88,000 ICPs out of 261,000). Accordingly, many of the distribution networks with the lowest penetrations of smart meters are in regions in which Trustpower has the highest retail market share.
- 1.1.3 The purpose of this letter is to note for the clarity of all market participants that this situation has not arisen as a result of an *“incumbent retailer strategy looking to “lock-out” competition”*.

## 2 Compliance obligations

- 2.1.1 As the Authority is aware, there are no obligations under the Code for either retailers or metering equipment providers (MEPs) to facilitate the replacement of legacy meters with smart meters.
- 2.1.2 However, there have been (and continue to be) obligations under the Code for meters to be *certified*. These obligations included the key requirement for all interim certified category 1 metering installations to be recertified prior to April 2015, and also include the ongoing certification and recertification of all categories of metering installations in line with Code requirements.
- 2.1.3 Most retailers and MEPs elected to attempt to meet the April 2015 compliance obligations by contracting with third parties to replace non-compliant legacy meters with compliant smart meters. This was the key catalyst for the commencement of New Zealand’s smart meter rollout.
- 2.1.4 In contrast, we elected to take the approach of replacing and recertifying our legacy meters as, in our view, it was the only way we could guarantee we would be able to meet the regulatory deadline. Our existing stock of meters already had a high rate of compliance, and we had systems and processes in place which meant that the costs to us of continuing to maintain and read those meters was extremely low. We believe this approach to meeting our compliance obligations has come at a lower cost, and greater net benefit, to our consumers than installing smart meters.
- 2.1.5 It should be noted that Trustpower was the only MEP to meet the regulated compliance deadline, after investing in a seven-year meter replacement and recertification programme.
- 2.1.6 As the Authority is aware, on multiple occasions we have expressed our disappointment to the Authority around the lenience of enforcement of these obligations, and the lack of consequence for non-complying MEPs and retailers.
- 2.1.7 It should also be noted that, more than two years on from the April 2015 compliance deadline, a number of MEPs’ meters remain non-compliant.

## 3 Intentions to roll out smart meters

- 3.1.1 Going forward, however, we believe that smart meters will be an important part of enabling us to deliver solutions which benefit our customers.
- 3.1.2 Given the success of our recent retail growth strategy, around 34% of our customer base is now on smart meters, deployed by those customers’ previous retailers, and we are receiving data from the third-party MEPs who own and operate those meters.
- 3.1.3 We have also been actively seeking a solution to rolling out smart meters to the rest of our customers.

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<sup>2</sup> See, for reference: <http://www.ea.govt.nz/about-us/media-and-publications/media-releases/2016/20sep16/>

- 3.1.4 As is well understood in the industry, we had intended to roll out 225,000 smart meters nationwide through a partnership with Metrix, over the period 2015-17 (which was later delayed to 2016-18).
- 3.1.5 Metrix and Trustpower mutually agreed to terminate our agreement in July 2015.
- 3.1.6 During 2016, we ran a new RFI process to identify partners with whom we could work to deploy smart meters to the balance of our customer base, and we are currently in the process of agreeing details to move forward with an initial deployment.
- 3.1.7 As part of our selection process, we have considered contracting Vector as that partner. Vector currently owns and operates approximately 75% (1.2m of the 1.6m) of the smart meters installed across NZ, and presumably has negotiated and agreed relationships with most (if not all) electricity retailers. Vector is the MEP for approximately 85,000 of the ICPs for which we are the retailer.
- 3.1.8 However, in our view Vector's smart metering service offering is standard, too inflexible and too expensive. Generally, it also requires a long-term commitment (i.e. 10-15 years) from the retailer counterparty for a new smart meter deployment, or a medium-term commitment (i.e. 2-3 years) for a retailer switching in a customer currently served by Vector.
- 3.1.9 An example of the inflexibility of the current Vector smart metering base service offer is the fact that data from the meters is not available to the retailer in real time, and hence it cannot be communicated from the retailer to the customer in real time – or even for several hours after real time. It also appears to us that Vector has also not continued to invest in developing and improving its service offering as the market has evolved, focussing instead on winning market share.

#### **4 Third-party access to smart meter data**

- 4.1.1 As discussed above, the current commercial construct of a smart metering service contract requires the retailing counterparty to pay a base service fee over an extended term (i.e. 10-15 years). This effectively recovers the full capital cost of a smart meter deployment together with the MEP's own service costs and a margin.
- 4.1.2 Although a number of network companies have claimed that there is significant benefit available to their business from receiving and analysing the data that is generated from smart meters, and service contracts generally allow data to be used for distribution purposes, Trustpower is not aware of any of those companies actually being prepared to pay anyone for that benefit.
- 4.1.3 Compared to the counterfactual costs of leasing a legacy meter (and obtaining physical meter reads) there is a significantly higher annual cost to receiving a base smart metering service. If some of those costs could have been reduced, via third parties (including network companies) paying for the use of data, either to an MEP or to a retailer, then it is likely that Trustpower would have been further advanced in its smart meter deployment than it is.
- 4.1.4 As we proceed with our proactive deployment of smart meters, we remain open, subject to customer privacy obligations and rights, to establishing commercial arrangements with any party interested in acquiring data generated from smart meters where there is benefit in doing so.

#### **5 Competitive implications of our delayed smart meter roll out**

- 5.1.1 Some retailers' business models require customers to have a smart meter. This is the case for the retailers quoted in the media article referenced by Vector in its submission.
- 5.1.2 There are clearly no barriers prohibiting any retailer from switching in a Trustpower customer at a property which has a legacy meter, and then arranging for a smart meter to be installed at the

property. Any gaining retailer is able to give notice under legacy metering leasing contracts to replace a legacy meter with a smart meter.

- 5.1.3 The only potential barrier is an unwillingness on the part of the gaining retailer and the MEP/meter service provider (usually Vector or Metrix) to agree commercial terms to facilitate the deployment and provision of services.
- 5.1.4 Trustpower has no control over the metering decisions of alternate retailers, either as the losing retailer or the incumbent MEP.

## **6 Residual customers without smart meters**

- 6.1.1 Even when the nationwide roll-out of smart meters is effectively “complete”, there will still be a reasonable proportion of customers who retain legacy metering. Some of these customers will have elected not to have a smart meter installed at their property. Others will be located in areas for which smart metering is not feasible.
- 6.1.2 The proportion of customers who will be unlikely ever to have access to smart meters is hard to estimate, but could be as high as 10% (i.e. ~200,000 ICPs) across New Zealand.
- 6.1.3 It is important the Authority and all market participants are cognisant of this fact, and ensure that these customers are not disadvantaged through the transition to new prices, products and services that are enabled by smart meters.

Please feel free to contact me on 07 572 9888 if you require any further information.

Regards,



**SIMON CLARKE**  
**GENERAL MANAGER BUSINESS SOLUTIONS AND TECHNOLOGY**

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