6 December 2016

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Submission on the Electricity Authority's 2017/18 Levy-Funded Appropriations and Strategic Priorities

Introduction

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper, *2017/18 Levy-funded appropriations and strategic priorities*, published on 25 October 2016.

2. We support the Authority's new and forward-looking focus on new technologies and business models in the electricity sector, and the development of markets enabled by these technologies.

3. We are, however, concerned that some of the Authority's existing key initiatives, on which the Authority and industry participants have spent considerable resources over many years, remain unresolved. We **recommend** that the Authority de-prioritise these initiatives, if not remove them from its work programme, and focus on forward-looking initiatives.

4. No part of this submission is confidential. Vector's contact person for this submission is:

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Focusing on new technologies and business models

5. Vector welcomes the Authority's intention to re-orient its advisory groups to respond to new and evolving technologies and business models in the electricity sector.

6. The introduction of emerging technologies such as grid scale and residential batteries, solar PV, home management systems, electric vehicles, and the continued deployment and utilisation of advanced electricity meters collectively present a game-changing opportunity for the electricity sector and the wider economy. We believe a new energy future includes

the wide-scale adoption of these technologies and the development of new business models that enable greater energy efficiencies and consumer choice.

7. Any regulatory framework for emerging technologies should provide the right incentives to accelerate their introduction and enhance, rather than diminish, incentives for innovation and investment. The rapid evolution of energy technologies and markets makes it more important for new assets to be tested or installed to meet the changing requirements of the industry and consumers. A desired outcome should be for investments in new technologies to be viewed as opportunities rather than being dissuaded by extensive regulation.

8. In our view, the role of the regulator should be to develop a regulatory framework for new technologies that allows innovation to flourish. It should monitor markets for new technologies, not impose prescriptive regulations that are likely to frustrate innovation.

9. Vector is committed to embracing the opportunities and consumer benefits new technologies bring. We intend to continue to develop innovative solutions to 'traditional problems', including providing commercial and residential batteries, solar PV, home management solutions, and electric vehicle charging.

10. We are prepared to be disrupted and be disruptive. We are exploring the practical application of relatively untested technologies to deliver improved services to consumers. For example, we will be trialling peer-to-peer trading amongst Auckland consumers using blockchain technology ─ the first in New Zealand.

11. We therefore support the establishment of the Innovation and Participation Advisory Group (IPAG) and the Market Development Advisory Group (MDAG). The members of these new advisory groups should be selected based on their strategic understanding of the implications of new technologies on electricity markets and consumers. IPAG and MDAG members, and members of the selection panels, should ideally represent a wide range of participants in the electricity industry and the wider energy sector.

Setting priorities

12. We are concerned with the Authority's work on Transmission Pricing Methodology (TPM). It has taken up considerable amounts of the Authority's and industry participants' time and resources for many years without a clear resolution in sight or clear benefit from the prevailing methodology. We have identified our concerns at both principle and implementation levels, including the lack of a transition mechanism, which have led us and many other parties to believe the Authority's TPM proposal cannot deliver durability for transmission pricing.[1]

13. Any flaws of the Authority's TPM proposal would have broad impact on consumers, business investment, and public confidence in the electricity market. They would have impact, for example, on wealth transfers, regional development and employment, fuel poverty, security

[1] We have identified these concerns in our submission on the Authority's Second Issues Paper on the TPM. See https://vectorwebstoreprd.blob.core.windows.net/blob/vector/media/vector/vector-tpm-submission-26072016.pdf.

of supply risks, and economic distortions arising from recovering charges for sunk assets over fewer parties.

14. The TPM work has generated nothing but disputes, to date. We therefore continue to encourage the Authority to seek independent expert peer review of its TPM proposal and learn important and practical lessons from other jurisdictions before proceeding further. The Authority should also consider alternative scenarios where its TPM proposal is not implemented, e.g. what grid investments will be impacted.

15. We are similarly concerned with the impact of the Authority's work on a Default Distributor Agreement (DDA). Many submissions on the DDA, including from both distributors and retailers, acknowledge that mandating the adoption of a DDA would discard the benefits and improvements made under the existing Model Use-of-System Agreement approach and impose unnecessary costs. Parties who are satisfied with their existing negotiated agreement should not be required to transition to the DDA. Those gains should instead be built upon to satisfy the Authority's objectives.

16. On the Authority's work on extended reserves, while we agree with the System Operator's proposed technical changes, we disagree with the Authority's proposed selection methodology which will use inaccurate historical data to manage grid emergencies. It increases the complexity and costs with little to no benefits to the industry or consumers. Vector supports an extended reserves regime that implements a standalone technical solution. As indicated in our submissions to the NZX and System Operator on the extended reserves draft technical requirements procedures, dated 29 November 2016, we support a standalone technical solution.

17. We are concerned with the cost overruns associated with the above initiatives relative to their initial budget for 2015/2016:[2]

EA Programme or Project	Initial Budgeted Cost 2015/16	Actual Spend 2015/16
TPM	$ 450,000	$ 1,295,000
DDA	$ 60,000	$ 170,000
Extended Reserves	$ 780,000	$ 934,000

18. We **recommend** that the Authority 'break the circuit' in relation to the above initiatives by de-prioritising, if not removing, them from its work programme. That would result in significant reductions in the levy, and make room for the Authority and industry participants to focus on forward-looking initiatives that are widely acknowledged to deliver consumer benefits. It would enable them to more confidently face the challenges of the electricity sector that is evolving at unprecedented speeds.

[2] Electricity Authority (2016). *Commerce Committee 2015/16 annual review questions 1 – 102 to the Electricity Authority, Response provided: 15 November 2016*, pages 5-6.

Enhancing processes

19. We consider that the Authority can make improvements around the sequence and timing of obtaining information from industry participants. For example, the Authority expects distribution businesses to publish their plan for introducing efficient pricing by April 2017 – prior to its proposed review of the pricing principles. In our view, it would make more sense for the review of the pricing principles to occur first so the refreshed principles could serve as reference points for the pricing plan. This would avoid problems associated with moving targets and unnecessary iterations.

20. The Authority has signaled it would take action on aspects of a distributor’s pricing plan that are not to its satisfaction. However, there could be aspects of pricing arrangements that are not mutually reinforcing or involve trade-offs; it may not be possible for certain objectives to be achieved at the same time or to a similar extent. For example, the objective of making progress towards service based pricing and bringing stakeholders and the community along may not be achieved in parallel.

21. We suggest that the Authority consider the potential interdependencies and offsetting effects of various aspects of pricing arrangements when it reviews a distributor’s progress with respect to its pricing plan.

22. In relation to extended reserves, the Authority has amended the Code in 2014 before the proper design of the scheme was developed. This approach was costly and inefficient as it led to further Code amendments in 2016 to address gaps that were subsequently identified. It would be more appropriate to properly explore the solution and overarching framework prior to codifying a new regime.

23. We encourage the Authority to engage with industry participants more closely, and more frequently as necessary, to better understand each other’s expectations and concerns around information requirements and processes.

Yours sincerely
For and on behalf of Vector Limited

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