

10 December 2018

Electricity Authority  
Level 7, Harbour Tower  
2 Hunter Street  
Wellington

VECTOR LIMITED  
101 CARLTON GORE ROAD  
PO BOX 99882  
AUCKLAND 1149  
NEW ZEALAND  
+64 9 978 7788 / VECTOR.CO.NZ

## Submission on the 2019/20 Levy-Funded Appropriations and Indicative Work Programme

### Introduction

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper on its *2019/20 Levy-funded appropriations and indicative work programme*, published on 13 November 2018.
2. In the context of a rapidly evolving electricity sector, Vector urges the Authority to adopt regulatory approaches that increase flexibility and resilience, and enable mass participation in electricity markets. A key aspect of such approaches is exercising restraint in imposing prescriptive, or more prescriptive, measures that are likely to stifle market entry and innovation that benefit consumers.
3. We set out below our comments on the Authority's indicative work programme for FY2019/20.
4. No part of this submission is confidential. Vector's contact person for this submission is:

Luz Rose  
Senior Regulatory Specialist  
[Luz.Rose@vector.co.nz](mailto:Luz.Rose@vector.co.nz)  
Tel: 04 803 9051

### Comments on the Authority's 2019/20 indicative work programme

5. Vector agrees with the Authority's intention to "focus on priority work areas and faster delivery of projects" in the coming financial year. We suggest that this approach be taken further to include 'faster or less costly exit' from initiatives that are not delivering significant consumer benefits in a timely manner, or as intended.
6. We generally support the Authority's forward-looking initiatives that facilitate the expansion and creation of electricity markets that provide the environment for commercial solutions, enabled by new technologies, to be developed.
7. We agree, in principle, with the following statements in recent documents published by the Authority:

We adopt small-scale trial and error approaches if possible, and we favour greater competition, market solutions, and flexibility to allow innovation and non-prescriptive solutions.<sup>1</sup>

---

<sup>1</sup> Electricity Authority (2017). *Statement of Intent 2017-2021*, Wellington, [https://www.ea.govt.nz/search/?q=statement+of+intent+2017-2021&s=&order=&cf=&ct=&dp=&action\\_search=Search](https://www.ea.govt.nz/search/?q=statement+of+intent+2017-2021&s=&order=&cf=&ct=&dp=&action_search=Search), page 33

...As new technology and a greater diversity of business models enter the market we are likely to find that market facilitation measures will be better instruments for pursuing desired outcomes than Code amendments.<sup>2</sup>

...Market facilitation measures are actions we can take short of amending the Code or recommending changes to regulations. This can include working directly with participants to develop desired results, education programmes, publication of guidelines...<sup>3</sup>

8. However, we have yet to see the above approaches applied, or applied meaningfully or more widely, in relation to the Authority's initiatives. Greater flexibility requires smart industry and regulatory arrangements that minimise or avoid complex rules and retain optionality in the industry's transition to a new energy future. There will be an increasing need for regulatory tools to recognise rapid evolution in the electricity sector, or otherwise risk regulation performing to past rather than today's consumer expectations. To ensure fresh thinking on policy and regulatory approaches, we suggest that the Authority engage new consultants/experts on a regular basis rather than simply 'rotating' them.
9. With the emergence of more dynamic electricity markets that allow greater consumer choice and participation, the need for prescriptive regulation should fall away. In such an environment, service providers can focus on delivering innovative and improved services to consumers rather than on regulatory compliance.

### **Multiple trading relationships**

10. While Vector recognises that the Authority's indicative work programme for 2019/20 is still in its early stage of development, it does not appear to include its work on multiple trading relationships (MTR). We would like to believe this is an oversight, considering that the Authority has signalled its intention of progressing MTR by referring it to the Innovation and Participation Advisory Group (IPAG).
11. It is on record that Vector supports MTR that creates new options for consumers and industry participants, and promotes mass participation in electricity markets. We recognise the 'game-changing' nature of MTR and the complexities with the current regulatory and industry arrangements that will need to be resolved to implement it.
12. Improving access to data, particularly consumption data, is a critical, enabling step towards MTR. We therefore support the removal of existing barriers to the flow of consumption data from those who generate or possess it to those who need it to deliver new and innovative services.
13. We recognise that there are multiple ways in which MTR can be achieved (or partly achieved), and support the development of practical and low-cost approaches to MTR that could minimise the need for complex rules. We will actively engage with the Authority as it continues to develop and test options to address potential barriers identified by industry participants during its consultation on MTR earlier this year.

### **Network access**

14. Vector finds the level of focus on distributors in IPAG's *Equal Access Project* to be surprising. Open access to distribution networks is the status quo and evidence of a problem in this area has yet to be established. The existence of a perception of a problem is not evidence of its existence.<sup>4</sup> Anyone can connect solar PV or battery technology to a distribution

<sup>2</sup> Electricity Authority (2017), *op.cit.*, page 31

<sup>3</sup> Electricity Authority (2018). *2017/18 Annual Report*, Wellington, <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/annual-report/>, page 47

<sup>4</sup> In Auckland, there are more than 400 embedded/customer networks, 2500 distributed generators connected since 2013, and over 25 retailers operating on Vector's distribution network.

network, anyone can start peer-to-peer trading on a distribution network, and anyone can start aggregating demand through a digital platform on a distribution network.

15. Moreover, network access issues are appropriately considered by the Commerce Commission (the Commission) within the Part 4 regulatory framework of the *Commerce Act 1986*. The Commission has undertaken extensive work on investment by electricity distribution businesses (EDBs) in emerging technologies, including through its recent Part 4, section 53ZD request and as part of its 2016 *Input Methodologies Review*. We question the need for the Authority's work in this area, given the additional workload this imposes on stakeholders in an area already subject to consideration by the Commission and the potential for duplication of work and regulatory overlaps.

### ***Distribution pricing***

16. Vector is committed to developing innovative, customer-focused distribution tariffs that provide consumers with greater choice and control over their energy costs. These tariffs also enable distributors to manage their networks more efficiently, avoiding costly network augmentation or repairs.
17. Access to electricity consumption data, particularly half-hourly customer usage data at the ICP level ("half-hourly data"), will be crucial for developing innovative pricing options that accurately reflect peak usage and encourage load shifting. Half-hourly data is also necessary to assess the potential impacts of pricing reform on consumers.
18. As Vector does not own most of the meters on its distribution network, we are reliant on retailers to provide half-hourly data. Despite clear contractual rights entitling us to such data for network planning and management purposes, large retailers continue to refuse to provide it.
19. To assist us in this matter, we would welcome a public statement from the Authority emphasising the importance of retailers making half-hourly data available to EDBs. This will facilitate the development of options for distribution pricing reform and provide visibility to support other initiatives by the Authority such as market facilitation.

### ***Transmission Pricing Methodology***

20. In Vector's view, the transmission pricing methodology (TPM) review process has fallen short of regulatory best practice in almost every respect. It has been marred by numerous issues, including the lack a coherent problem definition, lengthy delays, and failure by the Authority to address criticisms from stakeholders and experts.
21. The TPM proposal ignores the benefits grid-connected generators receive from being able to transport their product across the country, and represents a significant wealth transfer from consumers to producers.
22. Any changes to the TPM should result in all grid users, including generators, paying a fair share of the costs of the transmission grid rather than concentrating the costs on end consumers. We do not consider imposing most of the cost of the grid on consumers to be in their long-term benefit, leaving remote generators to avoid paying the cost of getting their product to market.
23. The Authority's December 2016 TPM proposal would have reduced charges on generators and increased the proportion paid by consumers, including those in poorer regions like Northland, King Country and Ashburton. It is difficult to see how this can be in the long-term interests of consumers.

24. We note that the Government's *Electricity Pricing Review* (EPR) has also highlighted concerns over the TPM review and sought suggestions for addressing the procedural and structural issues arising from that review. The first EPR report, published in September 2018, suggested the issuance of a Government Policy Statement (GPS) providing guidance on TPM, which we agree with. Given this development and the above considerations, the Authority should not undertake further work on TPM until a GPS guidance has been issued.

### **Wholesale market related proposals**

25. There appear to be significant competition issues in the wholesale market (e.g. the current Undesirable Trading Situation claim) that could be acting as barriers to the entry of independent retailers and emergence of new business models. The Authority should be focusing on potential abuses of market power by vertically integrated generators and improving the functioning of the hedge market.
26. Vector therefore welcomes initiatives that promote greater transparency and efficiency in the wholesale market such as the review by the Market Development Advisory Group (MDAG) of trading conduct in this market, and the Authority's proposed move to spot market settlement based on real-time pricing.
27. We suggest that the Authority consider the recommendations Vector made in its submission, dated October 2018, on the *Electricity Pricing Review* to address the exploitation of market power in the wholesale market.<sup>5</sup> We also made recommendations to improve the functioning of the hedge market in the same submission.<sup>6</sup>
28. We await with interest the initial outcomes of the proposed initiative to enable participation of new generating technologies in the wholesale market.

### **Retail market entry**

29. To promote greater mass participation in electricity markets, Vector proposes in its submission on the *Electricity Pricing Review* that the remaining restrictions on EDBs' participation in the retail market be lifted, including the provision of services 'behind the meter' such as residential batteries and solar PV. This would introduce a new source of competitive constraint in this market, immediately resulting in 29 new potential competitors to incumbent retailers which continue to command more than 90 percent of the market.
30. The above proposal recognises the reality that community ownership is valued by consumers and is an emerging trend globally. Many jurisdictions allow EDBs to engage in retail activities, including in most U.S. states.

---

<sup>5</sup> Vector's recommendations include: 1) tightening up the existing rules for defining and mitigating Undesirable Trading Situations combined with a step change in enforcement activity, 2) looking at options for wholesale market re-design such as the introduction of capacity payments combined with cost-based bidding regulation, 3) reducing concentration in the generation sector through, at least, expanding the current 'virtual asset swap' arrangements, 4) reviewing the asset revaluation practices of majority-Government owned gen-tailers compared with privately held gen-tailers to understand differences in their practices, and 5) ensuring the relevant regulator has modern, sophisticated market monitoring technology that seeks to identify any irregularities with effective enforcement processes.

<sup>6</sup> Vector's recommendations include: 1) regulated accounting and operational separation of, at least, majority Government-owned gen-tailers to allow returns to be transparent to the entire industry, and 2) providing much needed liquidity in derivative products through mandatory market-making obligations on large gen-tailers, and a requirement for internal hedging between the generation and retail arms of the same company to occur on market.

31. Allowing EDBs to provide retail services at potentially lower cost will provide consumers greater choice from a wider range of innovative market offerings, and help address energy affordability issues.

### **Compliance**

32. Vector agrees with the Authority's recent statements regarding its approach to compliance, which indicate that the Authority:

...take[s] a risk-based and proportionate approach to compliance, recognising that most industry participants want to comply with their regulatory obligations voluntarily, or can be encouraged or induced to do so;<sup>7</sup>

...focus[es]...on facilitating voluntary compliance by providing information, education, encouragement and assistance;<sup>8</sup> and

...[recognises that a] key risk of non-compliance is that innovation is stifled, but heavy-handed compliance can also stifle innovation and new competitors.<sup>9</sup>

33. We wish to see the above approaches applied in audits of market participants' compliance with the *Electricity Industry Participation Code 2010* (the Code). We believe a more flexible or voluntary approach is appropriate in circumstances where non-compliance has not harmed any industry participants or consumers while a strict interpretation of the Code would have imposed costs on these parties or would not deliver any significant consumer benefit. In such cases, we suggest that the Authority consider the application of thresholds before non-compliance is penalised, or coming into an agreement with the relevant parties on a low-cost resolution to a potential breach of the Code.

### **Other comments**

#### *System Operator contract*

34. Vector suggests that the Authority (or the appropriate government entity) consider legislative and Code changes that would require future service provider contracts with the System Operator to be subject to a competitive tender process. We do not view a simple "renegotiation" of the System Operator contract to be good practice given the rapidly changing technological environment and the size of the contract. The provision of this service should be tested in the market, i.e. by public tender.

#### *Omnibus consultation approach*

35. While Vector does not have any objection to an omnibus consultation approach, which the Authority adopted for its most recent Code change proposals, we believe that it should only cover incremental or easily realisable Code improvements rather than introduce Code changes that could have a profound impact on the market.
36. For example, the proposal to codify advanced technical standards for small-scale distributed generation, which was included in the above omnibus consultation, has potentially profound impact on new technology markets that deserve to be considered in a wider context. In this case, we believe it is more appropriate to consider more flexible options that promote the uptake of new technologies without creating barriers to market participation in the form of prescriptive (codified) requirements, e.g. issuance of guidelines to electric vehicle users to promote awareness of advanced technical standards, or adoption of minimum service levels

---

<sup>7</sup> Electricity Authority (2018), *op.cit*, page 43

<sup>8</sup> *Ibid.*

<sup>9</sup> Electricity Authority (2017), *op.cit*, page 29

instead of mandated technical specifications/functionalities that could dampen market entry and the uptake of new technologies.

37. To avoid 'consultation fatigue', we suggest that the due date for submissions that form part of an omnibus consultation be staggered rather than require three to four submissions to be submitted in a single day. The Authority can also consider holding omnibus consultations twice a year rather than annually.

#### *Electricity Education Portal*

38. We welcome the Authority's creation of an Electricity Education Portal which provides easily searchable information on almost any topic on the electricity sector and related topics on its website. We encourage the promotion of stakeholder awareness of their roles and obligations in a rapidly evolving industry through education and guidelines rather than through hard-coded requirements that could be time-consuming and costly to introduce, amend, or remove.

#### *Release of advisory group papers*

39. To enable industry participants to consider matters discussed by IPAG and MDAG in a timely manner, we suggest that the Authority release the minutes of advisory group meetings, including papers circulated at those meetings, within a month following the meeting.

#### **Concluding comment**

40. We are happy to discuss with the Authority any aspects of this submission and share our progress in delivering new technology solutions that enable consumers to be actively engaged in, and benefit from, the new energy future.

Yours sincerely  
For and on behalf of Vector Limited

A handwritten signature in blue ink, appearing to read "Richard Sharp".

**Richard Sharp**  
Head of Regulatory and Pricing