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Submission on the EA's Proposed levy-funded appropriations 2025/26

Introduction

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper, *Proposed levy-funded appropriations 2025/26* (the Consultation Paper), published on 15 November 2024.
2. We are highly conscious of ensuring power remains as affordable as possible through the transition, in the face of increased investment in both generation and network infrastructure. We are mindful that an uplift in the Authority's appropriation creates a certain increase in current consumer costs, traded off against uncertain future reductions.
3. Unfortunately we have not been able to provide a complete, considered response to this consultation due to prioritising our analysis of, and response to, the Authority's concurrent consultations on network connection processes and pricing, and implementing changes to our DDA and associated processes following recent Authority decisions in that area.
4. Because of this, we are unable at this time to offer our full support for the Authority's increased appropriation.
5. We agree the Authority needs to adequately fund its priority workstreams – in particular the integration and enablement of distributed energy resources in distribution networks, and implementing the recommendations from MDAG for wholesale market reform. Both are urgent, and both require significant focus and attention for the next three years, at least. We would also include package 1 of the reforms being pursued by the competition taskforce in this 'urgent' bucket.
6. However, we believe this may be achieved by scaling back efforts on workstreams of more speculative value, such as network connection processes and pricing. We have struggled to understand the long-term value of these workstreams to a wide range of consumers, compared with more obvious issues such as improving competition in the wholesale markets, and improving system reliability.
7. In our view, the taskforce's package 2 interventions similarly lack clear problem definition and appear to tackling second-order issues, as far as we can tell. It is not clear where these ideas came from, what the scale of benefits are, or whether they have widespread support. These should be deprioritised at this time, with the resources diverted to higher priorities.
8. We offer comments on particular areas of interest in the remainder of this letter, followed by our answers to the specific consultation questions posed.

Authority's monitoring function needs to be significantly enhanced

9. We noted in our corresponding submission a year ago that monitoring, reporting and compliance all require concerted focus. As we have said in several previous submissions[1], there is much the Authority can pick up from regulators of parallel industries in New Zealand, and of electricity markets globally.
10. Just as we and other participants intend to leverage fully the capability offered by new technology, the Authority also needs to develop in this area. No doubt, market participants are improving the efficiency of their market offering strategies through new technology, and the Authority will need to invest heavily to stay one step ahead.
11. We support the recommendations of MDAG in this area – if the wholesale market is to play the key role anticipated for it through the transition, maintaining reliability at least cost, then public confidence in its ability to play that role needs to increase significantly. We noted a year ago that trust and confidence was particularly low, and unfortunately it has fallen further following winter 2024.
12. In particular, we and many other participants have raised concerns for some time about the delta between forward prices on the ASX and long-run investment costs. Following the Electricity Price Review, the Authority was tasked (in recommendation D4) with analysing and regularly reporting on the comparison between these two metrics, but we have yet to see this being reported publicly[2]. If it is being done, it needs to be given a much higher profile and be made visible to increase understanding and inspire confidence.
13. In the absence of an authoritative voice, competing explanations will fill the vacuum.
14. Further, the Commerce Commission's decision late in 2023 to decline to investigate competition concerns in the wholesale market increases the onus on the Authority to do so conclusively. This absolutely needs to be prioritised and resourced.

Key aspects of the work programme need to be accelerated

15. We are concerned that the integration and enablement of distributed energy resources has slipped down the priority order over the past year. As the Authority notes from paragraph 2.27 in the consultation paper:

> *"The adoption of more new technologies and distributed energy resources, like solar and batteries, will improve industry competition and efficiency and enable consumers to have more choice and control over their electricity.*
>
> *These new technologies will help meet increasing demand, provide more flexibility in the system to manage intermittent generation, and enhance competition, which will put downward pressure on prices.*
>
> *Consumers will ultimately be able to better manage their electricity use, making smart electricity use choices, which will help balance supply and demand and stabilise the electricity system."*

16. As we noted a year ago, we think the Authority needs to do more in this space, faster.

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[1] See, for example, our submission on the Authority's appropriation in November 2022. Available online at: https://blob-static.vector.co.nz/blob/vector/media/vector-2022/vector-submission-ea-2023-24-levy-funded-appropriations.pdf

[2] We note the recent publication of the Concept survey into generation investment, available online at https://www.ea.govt.nz/documents/4414/Generation_Investment_Survey_-_2023_update.pdf, which demonstrated this differential on slide 6 but did little to explain why the differential exists or whether it is acceptable.

17. We have noted in multiple recent submissions the risks that “herding” of DER on distribution networks could create, and the sea change that such “diversity destruction” presents for distributors in planning and operating their networks. New settings are required to keep distribution networks safe and secure in these evolving circumstances.

18. Better coordination and more efficient use of DER is an incredible opportunity for Aotearoa New Zealand. However, despite this, critical issues relating to safe and secure distribution system operation – especially protocols between participants, and the abilities of distributors to avoid network emergencies, and manage them if they do occur – are being deprioritised.

19. We have been left perplexed by the Authority’s decision to delay indefinitely efforts to bring non-retailer aggregators into the Code, and ensure that they operate in ways that do not risk compromising public, consumer, device or network safety. At this point in time, there are no protections in place. There has been no explanation why this has been removed from the work programme, when consultation in the 2024 calendar year had been signalled repeatedly and we understood was imminent. This is not good practice.

20. We are concerned that EDBs’ collective efforts to draw the Authority’s attention to these issues may somehow be misinterpreted as attempts to block progress, innovation or consumer choice. This could not be further from the truth. Making full use of the distributed flexibility available will be an essential requirement for the future system. Consumers’ trust and willingness to have third parties, like retailers and other aggregators, managing their devices will be hard-earned, and easily lost. Nothing will lose that trust – and social license for the sector – more rapidly than unnecessary outages or safety issues resulting from uncoordinated operation of DER. Retailers are increasingly signalling to us their understanding of the need to “respect the network” in how they operate DER, and we are asking for non-retailer aggregators to do the same.

21. Put another way, it is essential we do not attempt to build the “house” of market participation by aggregated resources before the “foundations” of safety and stability settings, and effective operational coordination, are in place.

22. In the 2024 calendar year, we recommend that the Authority acts with urgency on the feedback we and other EDBs have provided, and the corresponding recommendations of MDAG in this area. We, and our industry colleagues in ENA’s *Future Networks Forum* and the FlexForum, are very keen to help progress this area. These items are not currently included in the work programme for this area, but need to be.

Increased coordination between regulators is imperative

23. Finally, we reiterate a common theme from many of our previous submissions, that we expect to see evidence of much greater levels of coordination between New Zealand’s three energy regulators, and with the other two members of the Council of Energy Regulators.

24. As we understand it, New Zealand’s regulatory arrangements, and the split of responsibilities between the parties, are globally unique, and are basically a quirk of the way the various arrangements have evolved over time.

25. This makes the need for coordination all the more imperative – both on the specific workstreams that cut across multiple jurisdictions and statutory objectives, and in how the sector is engaged. There needs to be more transparency of how this is occurring, and an opportunity to feed back on how well (or not) this is occurring.

Responses to consultation questions

Q1. Do you support the Authority's proposal for a permanent baseline increase to its Electricity Industry Governance and Market Operations appropriation of $7.8 million for 2025/26, bringing the total appropriation to $120.2 million?

No.

While we support the baseline increasing by $5.7m per annum to pay for the increased costs of service providers, as we noted above we believe the Authority could reprioritise its existing work programme to elevate high-value projects and scale back lower priorities. These are discussed below in response to Q2.

While we agree there is a need to meet the increased costs of service provision, we noted in our corresponding submission a year ago that there needs to be increased scrutiny of the providers' performance to ensure they are delivering consumers the greatest value they can.

In this vein, we reiterate our recommendation from a year ago:

> "… *we think a useful addition to the Authority's monitoring role would be to gauge annually from stakeholders their experience in working with these SPs, how they are performing, and how stakeholders think they could improve their performance. This should be a key part of the SPs' performance assessment. Stakeholders could assist in the development of the SPs' key performance indicators, as well as provide input into how well they are meeting expectations.*"

Q2. Which of the Authority's activities are top priority for you, and which other activities do you think should be traded off against these priority activities?

We noted a year ago we think there are aspects of the distribution settings workstream which overlap with future system operation, and MDAG's recommendations, but are not currently being worked on. These need to be urgently prioritised.

We have reviewed the draft indicative workplan and have the following recommendations about workplan items we believe could be prioritised and deprioritised.

Workplan items that should be prioritised	Workplan items that should be deprioritised
• Package 1 of the ECTF recommendations • Implementing MDAG's recommendations • Better use of data visualisation and more automated monitoring of wholesale market activity and outcomes • Extending trading conduct provisions to include the use of non-offered, aggregated distributed resources (i.e. virtual power plants) and grid-level demand response • Bringing aggregators into the Code, and requiring them to enter into operating protocols with their host distributors (parallelling clause 5 of the DDA for	• Package 2 of the ECTF recommendations • Reform of distribution connection pricing • Addressing non-price barriers to connecting at the distribution level • Undertaking bespoke scenario development work

retailers) to ensure safety and stability as the foundation for market participation • Enabling commercial access to operational data from meters and MEP (including ensuring the metering fleet is <u>capable</u> of collecting this data) • Introducing settings required to maintain common quality on distribution networks (i.e. the equivalent of Part 8 for distribution networks) • Surveying the range of <u>existing</u> scenarios already developed for the energy sector	

We strongly recommend the Authority **does not** undertake its own scenarios work. There are myriad energy scenarios available in New Zealand, and the Authority could readily infer the relevant points for its own work from a survey of scenario work already undertaken across the sector.

Q3. Do you support the Authority's proposal for maintaining the contingent appropriation for Managing the Security of New Zealand's Electricity Supply at its current level of $6.0 million over five years?

Yes. There is no case at this point for increasing this contingent appropriation.

Q4. Do you support the Authority's proposal for maintaining the contingent appropriation for the Electricity Litigation Fund for 2025/26 and outyears at $1.5 million?

Yes. There is no case at this point for increasing this contingent appropriation.

Q5. Do you have any other comments on the Authority's proposed funding for 2025/26?

No.

Q6. Do you have any comments on the Authority's indicative work programme for 2025/26?

Please see our response to Q2 above.

Q7. Do you have any comments on the Authority's draft regulatory strategy?

We note the Authority's draft regulatory principles in Appendix A, and agree with them:

- *We deliver better outcomes through clear and proportionate actions.*
- *We are delivering benefits to consumers in the short and long term.*
- *Our decision making is transparent, evidence-based and understood.*
- *We continuously improve our performance and impact.*
- *Our actions proactively enable change.*
- *Our actions are informed by market signals, risks and opportunities.*

We appreciate these principles are aspirational and we look forward to the Authority evolving into them. For example at this stage, in our view, prioritisation and decision-making does not always appear to be based on clear problem definition or founded on clear evidence (as noted above), and we will appreciate this capability growing over time.

Concluding comments

26. We are happy to discuss any aspects of this submission with the Authority. Please contact me in the first instance, on [redacted]
27. No part of this submission is confidential, and we are happy for the Authority to publish it in its entirety.

Yours sincerely

Dr James Tipping
GM Market Strategy / Regulation