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Submission on the Electricity Authority's 2018/19 Levy-Funded Appropriations and Work Programme

Introduction

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper, *2018/19 Levy-funded appropriations and work programme focus areas*, published on 21 November 2017.
2. As the energy sector undergoes rapid evolution, we encourage the Authority to adopt regulatory approaches that support adaptability and resilience. Such approaches allow industry participants and consumers to respond more nimbly to disruption and successfully navigate the road to a new energy future.
3. We set out below our responses to selected consultation questions.
4. No part of this submission is confidential. Vector's contact person for this submission is:

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Responses to selected consultation questions

Q1: What is your view of the Authority's proposed 2018/19 Electricity industry governance and market operations appropriations amount of \$74.270 million?

5. The consultation paper does not provide budgetary amounts for individual programmes. The lack of such details has limited our ability to provide a meaningful assessment of the proposed programmes, particularly those of most importance or interest to our businesses.
6. We believe the Authority's proposed appropriations can be reduced by de-prioritising or removing initiatives that have not or will not deliver the desired consumer outcomes. In our view, these include the proposed network access investigation, ongoing work on the Transmission Pricing Methodology, and the development of a Default Distribution

Agreement. We also agree with many industry participants that it is time to abolish the low fixed charge tariff regulations.

Network access

7. The Authority announced in November 2017 that it will ask the newly established Innovation and Participation Advisory Group “to closely look at whether unnecessary hurdles exist around network access, and how to address any potential barriers or factors undermining confidence in non-discriminatory access to electricity networks”.
8. We consider this proposed work to be unnecessary. Networks are already highly regulated under Part 4 of the *Commerce Act 1986*. This could result in regulatory overreach, with networks being ‘doubly regulated’. It will blur the boundary between the Authority and the Commerce Commission, creating uncertainty and confusion.
9. Disruptive technology, greater control in consumers’ hands, and uncertain future load demand are fundamentally changing the way networks will need to be built. Electricity networks will need to evolve rapidly, i.e. become smaller, more agile, and more responsive. The network of the future will better enable innovation and consumer participation. We are therefore unable to see the problem the Authority is attempting to solve with its proposed work on network access.
10. We urge the Authority to step back, particularly in areas of rapid change. Prescriptive approaches are problematic because of the lack of information about an uncertain future. In disruptive circumstances, a prescriptive approach could itself contribute to policy uncertainty and could stifle innovation.

Transmission Pricing Methodology

11. As a company that is majority owned by Auckland electricity consumers, we do not wish to see consumers paying more. The current transmission pricing methodology (TPM) would make a huge number of New Zealand consumers worse off.
12. As an issue that remains unresolved for many years, at significant cost to market participants and without clear benefits for consumers, we recommend the removal of TPM in the Authority’s work programme.

Default Distribution Agreement

13. Our submission on the Authority’s appropriations last year expressed concern that mandating the adoption of a default distribution agreement (DDA) would discard the benefits and improvements made under the existing Model Use-of-System Agreement (MUoSA) approach, and impose unnecessary costs. It is hard for us to reconcile the negotiation and signing by retailers of agreements based on the MUoSA (and not having heard any complaints directly from retailers) with the introduction of a DDA.

14. In our view, parties who are satisfied with their existing negotiated agreement should not be required to make the transition to a DDA, and those gains should be built upon to satisfy the Authority's objectives.
15. As significant progress does not appear to have been made on this programme over the past year, we recommend its de-prioritisation or removal from the Authority's work programme.
16. In a disruptive world, where boundaries between services are getting murky, there is a risk that more prescriptive contracting provisions could stifle innovation, including contracting innovation.

Low fixed charge tariff

17. We believe the *Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004* should be abolished. There is now widespread recognition that these Regulations are not working. They create market distortions and do not necessarily target those most in need.
18. It should be recognised that consumers sit on a continuum of 'energy vulnerability'. Support should therefore be proportional to varying need. We favour an income or price-based approach that is targeted, proportional to need, and complemented with other energy efficiency and information-based measures to assist those in need.
19. Consumers are not seeing the benefits of retail competition. The Authority should look into why the pass-through of any savings from the supply chain to end consumers is not evident in a competitive retail market, and how any identified issues can be addressed.

Extended Reserve Programme

20. We seek greater clarity around the Authority's Extended Reserve Programme. Having allocated significant resources for this programme, including ensuring compliance with the tight timeframes, its indefinite delay without detailed explanation is inconsistent with a 'no surprises' approach.
21. It would be helpful if the Authority can signal whether it will pursue a consultation on proposed Extended Reserve procurement schedules, and provide indicative timeframes, so we can consider it in our business planning.

Q2: What is your view on the continuation of the What's My Number campaign in 2018/19?

22. We agree with the continuation of the *What's My Number* campaign for 2018/19.
23. Currently, there is little assistance available for consumers to identify whether they would be better off on advanced pricing plans such as 'time of use'. We would encourage the development of the *What's My Number?* and powerswitch sites to include comparisons

which incorporate analysis of more advanced plans. We believe more can be done to promote switching and enable consumers to determine whether they are on the most beneficial plan.

Q3: What is your view on the areas of focus for the Authority's 2018/19 work programme?

24. In principle, we consider the Authority's market development strategies (reduce barriers, improve participation, improve price signals, and increase flexibility and resilience) to be supportive of adaptable approaches.
25. To facilitate the above, we suggest that the Authority focus on its programmes on:
 - increasing mass market participation;
 - facilitating multiple trading relationships; and
 - encouraging innovative pricing approaches.
26. We anticipate future industry debates to be around determining the most appropriate regulatory arrangements and mechanisms that would deliver these outcomes. Relying on traditional economic theory when developing regulatory approaches for these areas may no longer be sufficient, given the multiplicity of factors that drive consumer behaviour.
27. We further suggest that the Authority look into potential 'gaming' in the wholesale market that could undermine industry participants' trust in, and the liquidity of, that market.
28. The Authority should not get distracted by issues where there is no evidence of a problem such as access to networks.

Increasing mass market participation

29. We support the Authority's focus on increasing mass participation in electricity markets.
30. Mass market participation should be about lowering barriers to market entry and increasing consumer confidence in the market. There is a risk that the opportunity to achieve this goal will be derailed by a focus on areas that deliver limited or no value to end consumers.

Multiple trading relationships

31. We welcome the Authority's release of a consultation paper on multiple trading relationships (MTR). We are excited about the potentially game-changing nature of this new programme. We view MTR as a manifestation of "energy democracy", but are at the same time daunted by the potentially disruptive and complex processes industry participants may have to navigate to realise MTR.
32. Due to a quirk in the existing market structure, our electricity distribution business has found it difficult to obtain sufficient consumption data from retailers. Data is increasingly becoming important for the efficient management of our network, and the energy sector in general. We

encourage the Authority to recognise the value inherent in leveraging New Zealand's successful rollout of smart meters for network planning purposes. New Zealand has one of the highest uptakes of smart meters in the world; we are well placed to harness the value of energy data.

33. We are nevertheless optimistic that the industry and the Authority can develop a practical and low-cost approach to realise MTR. We envision an arrangement where energy data can flow towards those who will use it to deliver consumer benefits, and market participants face the right incentives to provide data for such purpose.

Distribution pricing – innovative approaches

34. We urge the Authority to adopt a flexible approach to distribution pricing to provide better signals to consumers on the value of the electricity they are consuming, and spur innovative pricing plans. For example, the introduction of “peak tariff rebates” that reward consumers for reducing consumption at times of peak demand has the potential to elicit demand responses in the future for consumers’ benefit.
35. A key aspect of being able to provide innovative pricing approaches is access to consumption data. We understand that several electricity distribution businesses have found it difficult to obtain consumption data for their pricing trials. We expect this issue to be raised as part of the MTR programme.

Increasing transparency and trust in the wholesale market

36. “Undesirable trading situations” that occur in the wholesale market undermine any confidence non-integrated retailers and consumers have in this market to consistently deliver outcomes in line with competitive markets. We urge the Authority to enforce greater transparency across all integrated generator-retailers. Any perverse trends could highlight the need for structurally separating generation from retail businesses.
37. We support the steps taken by Contact Energy to issue separate reports for its generation and customer segments.
38. The Authority should look into factors that mute signals on the efficient value of generation, e.g. ability to unilaterally withdraw or provide capacity on non-commercial terms. Pricing transparency is important for investment decisions in the context of the emergence of fast response generation technology (e.g. grid-scale battery) that can respond more quickly during demand spikes.

Q5: *What is your view on the Authority’s proposal to keep the Managing the security of New Zealand’s electricity supply appropriation unchanged for 2018/19?*

39. We have no issue with keeping this appropriation unchanged for 2018/19, noting its contingent nature, i.e. it will not be drawn in the normal course of events.

40. We encourage the Authority to consider the broader and more relevant concept of “resilience” in relation to the objective of ‘keeping the lights on’. This is in the context of increasing load uncertainty that is creating unique challenges for long-term network investment and stability.
41. In a period of disruption, understanding the network impact of changing consumer preferences, enabled by more robust data analysis using new technologies, is vital to ‘keep the lights on’.
42. We are testing new technologies to maintain network stability and reliability. For example, we are working with technology company mPrest to develop a system that will manage Auckland’s electricity network. When Vector’s network is at peak capacity, mPrest can locate other energy sources connected to the grid and utilise them to lessen load on the network. This reduces the likelihood of a power outage particularly at times of high demand.

Concluding comments

43. As the energy sector undergoes rapid evolution, we encourage the Authority to refrain from imposing prescriptive arrangements that are ‘fragile by design’ and could hamper market participants’ ability to develop new technology solutions for consumers.
44. We intend to continue our conversations with the Authority, other regulators, and existing and potential industry participants about regulatory frameworks and market arrangements, including innovative pricing approaches, that can deliver better consumer outcomes.

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