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Submissions
Electricity Authority
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Via email: distribution.feedback@ea.govt.nz

SUBMISSION ON UPDATING THE REGULATORY SETTINGS FOR DISTRIBUTION NETWORKS

The Electricity Retailers Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Electricity Authority's discussion document 'Updating the regulatory settings for distribution networks' from July 2021.

ERANZ is the industry association representing companies that sell electricity to kiwi households and businesses. Our members supply over 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

ERANZ agrees with the goals the Authority is trying to achieve in this consultation. New Zealand's response to climate change requires rapid electrification, particularly of the transport and industrial heat sectors, to reduce emissions. The ability of flexibility traders to innovate and develop new services will aid this outcome. ERANZ sees significant advantages flowing from the ability of customers to consume electricity how and when best suits them in a way that reduces peak loads on distribution networks, saves consumers money, and supports low-emissions products.

Our submission lays out our feedback on four main sections from the discussion document:

- Information on power flows and hosting capacity – section 4
- Market settings for equal access – section 6
- Operating agreements – section 7
- Capability and capacity – section 8

Section 4 – Information on power flows and hosting capacity

Key questions

- Q.1 Have you experienced issues relating to lack of information or uneven access to information?
- Q.3 What options should be considered to improve access to information?

Summary

- MEPs are currently the ultimate data holders.
- Flexibility traders' access to consumption data is a significant issue, so the Authority should consider how to improve arrangements, including evaluation of a shared data API.

Retailers understand and support the need for distributors and flexibility traders to access information about power flows and hosting capacity to facilitate investments in their networks and efficiently operate distributed energy resources ('DER').

For DER to work well, data accessibility improvements are required. Retailers agree that near real-time data will be essential for DER to optimise network usage throughout the day. This information is expensive and not widely available - partly due to processes to verify and validate the raw data but also due to the way data is communicated from meters to back-office system end-users.

Improving data management is increasingly essential as we develop a more complex, multi-trader relationships regime. That complexity is why ERANZ supports the Authority considering the 'medium' or 'significant' options to rectify this, for example:

- Assess opportunities to implement shared data arrangements.
- Publish guidance for distributors to report on export congestion and network investment needs.
- Shared data through API.

Retailers and distributors have been working through similar issues in sharing retailer-held consumption data to support network management. Retailers are committed to playing their part to support this goal. Our experience is that differing approaches taken by different EDBs can lead to inefficiencies. In recent times, significant steps have been made to improve distributor access to retailer-held consumption data, mainly through the default distributor agreement ('DDA') process.

Although there is industry agreed data-sharing template, uptake has been slow, increasing transaction costs contrary to the initiative's original intent. Having a voluntary arrangement increases transaction costs by its very nature – meaning all proposals have to be assessed against the template to check consistency. ERANZ continues to recommend the Authority implement the DDA template in the Code, as originally requested, to provide a practical solution to standardise data sharing.

Beyond sharing consumption data, retailers have limited ability to improve the flow of data further because it simply is held elsewhere. For example, retailers already get approached by flexibility traders asking to share data. There can be frustrations under current settings with market participants assuming that retailers hold all consumer data when in fact retailers only receive a set of consumption data from the ultimate data collectors, metering equipment providers (MEPs).

Currently, nothing in the Code prevents distributors or flexibility traders from contracting directly with MEPs to access the data they need for network management or other purposes. In addition, there may be merit in allowing new players to enter the market and provide data services, which would allow them to interact between distributors and other market players.

For example, customers could nominate a “data keeper” organisation to act on their behalf rather than relying on retailers to serve as the middlemen.

These issues need to be considered alongside the ‘consumer data right’ work currently being undertaken by the Ministry of Business, Innovation and Employment’s. Consumers should have autonomy over their own data but currently have limited means of accessing anything other than consumption data. Having specialised data services could allow for access to a consumer’s full suite of data rather than just the consumption data the retailer holds. The evolution of a complex, multi-trader relationships regime means no single retailer will hold all of a customer’s data in any case.

Section 6 – Market settings for equal access

Key questions

- Q.11 Are flexibility services being pursued through a competitive process?
- Q.12 What options should be considered to incentivise non-network solutions?
- Q.13 What options would encourage competitive procurement processes for flexibility services?

Summary

- ERANZ supports the market developing through competition, including by distributors, to lead to better outcomes for consumers.
- The potential benefits from a widespread uptake of DER are significant so distribution networks should have the ability to invest in innovation and infrastructure upgrades.
- Regulations should evolve alongside the technology rather than dictate its form.
- A lack of clarity as to how flexibility traders could access data and distribution networks will reduce their ability to assess the commercial viability of different interventions.
- Heat maps of network congestion could give confidence to market entrants that it is worthwhile by showing them the market size.

ERANZ strongly supports the Authority’s push for competition in flexibility services. We agree with the Authority’s observation that distributors may favour network over non-network solutions, or if they do decide to invest in DER, they may be more likely to favour in-house provision.

There is a role for distributors and the Authority to play in fostering a market for flexibility services. The Authority could encourage, for example, distributors to publish heat maps of congestion on their networks to encourage other players to enter the market at the right geographic location and at the right time. Heat maps would give confidence to market entrants that it is worthwhile by showing them the market size. Another example is distributors could incorporate congestion pricing, which would generate a market response and greater interest in getting involved in this area.

Nurturing innovation for the long-term benefit of consumers and the environment may require the Authority to set out how it sees the opportunities and what the regulatory framework may or may not look like. Such guidance would allow flexibility traders to better assess the commercial viability of different interventions. Any regulation should evolve alongside the technology, rather than dictate the form that technology should take.

With relevant guidance in place, distributors' participation in contestable services can drive greater competition and ultimately improve outcomes for consumers. ERANZ welcomes and supports that. We consider the potential benefits from a widespread uptake of DER are significant so distribution networks should have the ability to invest in innovation and infrastructure upgrades. Previously published economic analysis supports this point – there are large potential gains and distribution networks have a useful role to play.

However, the Authority should continue to monitor the market's development closely to ensure competition remains on a level playing field, otherwise, it could be a barrier to fully realising the potential of DER. Distributors are both regulated monopolies and have commercial arms operating in competitive markets, giving rise to the potential to distort nascent markets and reduce competition. Therefore, proactive oversight is important to ensure these new areas of innovation and product development are best serving their customers. The potential benefits of DER are significant, but for them to be realised, the barriers to entry need to be kept low.

For example, in the electric vehicle charging market, there have been situations arising where distributors compete against new entrants. There needs clear delineation between the distributor's actions as the network operator and the actions of its commercial arms offering inducements to attract vehicle charging customers.

In addition, owners of distributors sometimes ask the business to do things they might not otherwise do. Community-owned distributors might build certain infrastructure because it improves the amenity value for their community, but harms consumers in the long-term by stifling competition. For example, they might build five electric vehicle charging stations when an independent company wanted to build two instead. In other words, it is popular but not necessarily economic. The Authority needs to keep in mind disciplines on price and service.

ERANZ welcomes the steps regulators have taken to provide clarity around what is and isn't appropriate activity. However, further improvements to the regulatory regime could include:

- improved transparency and disclosure regimes,
- regulator monitoring and enforcement measures,
- external scrutiny of procurement choices, and
- clearly defined boundaries for competitive investments.

Section 7 – Operating agreements

Key questions

- Q.14 Have you experienced difficulties with negotiating operating agreements for flexibility services?
- Q.15 Are the transaction costs of developing contracts a barrier to entering the market for flexibility services?
- Q.16 Would an operating agreement help lower transaction costs and level negotiating positions?
- Q.17 What kind of operating agreement would address the issues described in this chapter?

Summary

- Authority should work with industry to try and form industry-led solutions to operating agreements before implementing mandated solutions.
- 29 distributors bring complexity that could form a barrier to entry for flexibility traders.
- ERANZ supports the Authority considering the benefits of standardised 'DDA-style' contracts for distributors and flexibility services.

ERANZ supports the objective for distributors and flexibility traders to negotiate cooperative agreements representing a fair value between parties. As discussed in the previous section, the natural monopoly position of distributors requires guidance from both the Authority and the Commerce Commission to minimise the impact of that monopoly power on competitive parts of the sector. The Authority should work with industry participants to try and form industry-led solutions to operating agreements before implementing mandated solutions.

The Authority is right to consider the potential benefit of standardised 'DDA-style' contracts for distributors and flexibility traders to use. There are likely to be high costs for both parties to develop and negotiate bespoke operating arrangements in every circumstance. In addition, having 29 distributors brings complexity and the potential for geographic disparity.

Flexibility service providers will include small, start-up sized businesses. They have a lower capacity to negotiate with monopoly distributors and to deal with the complexities of 29 different regimes. High market entry costs could deter new players, lowering competition and, therefore, the amount of innovation in the industry. Given the issue is tackling climate change and transitioning entire sectors to electricity, any lack of innovation will hinder New Zealand's overall climate change response.

Standardised contracts could help mitigate these barriers, including costs, faced by new entrants in negotiating with 29 distributors. One approach to simplifying the contracting process is the mediated industry negotiation the Authority oversaw for the DDA data template. This process showed how different parts of the industry can work constructively together to develop a reasonable solution. There may still be merit in regulating the agreed approach to help reduce transaction costs.

Flexibility services are likely to be more diverse than the services covered by the DDA, so they would need to have a broader scope. Even if not containing comprehensive terms, they could cover most practical terms, including disputes, settlement, liabilities and minimum standards. However, any standardised contract framework should recognise existing contracts that parties might already have agreed to.

On the issue of geographic disparity, New Zealand has a patchwork of distributors across the country. Therefore, any differing response to flexibility services or pricing by these distributors will mean consumers across the country will have unequal access to the benefits offered by flexibility services. We look forward to working with the Authority further to explore efficient pricing issues in its current consultation.

Section 8 – Capability and capacity

Key questions

- Q.18 What are distributors doing to ensure their network can efficiently and effectively manage the transformation of networks?
- Q.19 How are distributors currently working together to achieve better outcomes for consumers?
- Q.20 Could more coordination between distributors improve the efficiency of distribution?

Summary

- Demands of our climate change response will mean a greater need for distributors to gear up for increased demand driven by transport and industrial heat electrification.
- 29 distributors bring complexity and the potential for geographic disparity.

Demands of our climate change response will mean the entire electricity sector – including distributors – need to gear up for increased demand driven by transport and industrial heat electrification. Consumers in all parts of New Zealand deserve to have access to new products and services at a fair price – especially when those products and services can help them reduce their emissions.

ERANZ agrees with the Authority's statement that "having 29 distributors is not necessarily the most efficient way to structure the distribution sector in New Zealand." There is variable capability and capacity across distribution networks to meet the challenges of New Zealand's transition to a low-carbon economy. Some do this very well, with investment in and support for alternative approaches to demand management – but these positives are far from universal.

It may not be realistic to expect every area of New Zealand to attract the specialist workforce capability required to transition distribution networks into the new, low-carbon era. Consumers will benefit from more joined-up working across EDBs – regardless of whether that is in the form of amalgamation or more substantive collaboration between distributors. If this is not achieved, regional communities could miss out on innovation and, therefore, the opportunities to reduce their emissions available in other communities.

The 2017 Electricity Price Review found most small distributors have higher operating costs per consumer than big distributors, although this is not universal. Indeed, 12 of the 29 distributors are customer-owned and exempt from price-quality regulation. ERANZ supports the Authority in assessing whether to impose price-quality regulation on all distributors. Such regulation could involve setting objective standards for distributors to meet; this would signal to distributors to assess whether or not they can fulfil these obligations or should amalgamate to meet the standards.

Conclusion

Thank you again for undertaking this review into 'Updating the regulatory settings for distribution networks'. The impact of this work has the potential to improve significantly New Zealand's ability to reduce emissions and transition to a low-carbon economy. We are available to discuss our submission further if required.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Burrows', with a long horizontal flourish extending to the right.

Cameron Burrows
Chief Executive