

Evolving technology requires the evolution of electricity markets

Sustainable Electricity Association of New Zealand Conference

13 November 2015

COMPETITION • **RELIABILITY** • **EFFICIENCY**



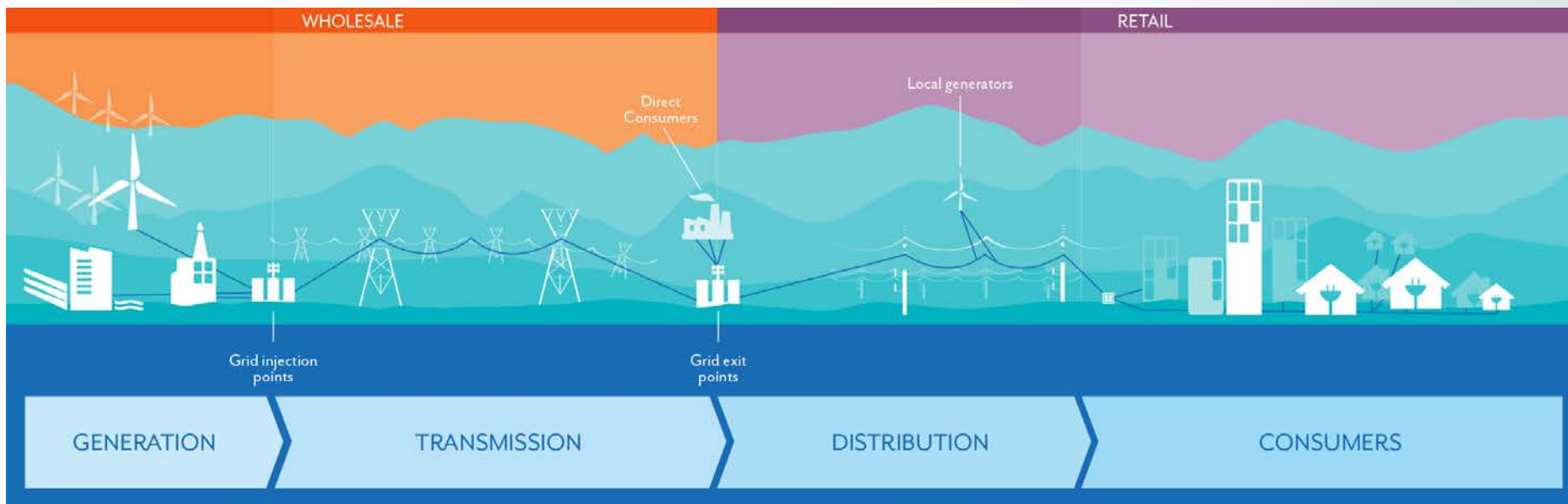
THE AUTHORITY: WHY?

We are responsible for the 'rules of play'

- Markets involve rules – who sets and enforces the rules matters
 - You want an independent, neutral, expert acting for the long-term benefit of consumers
- The rules of play are found in:
 - The Code – impose requirements on participants
 - Market facilitation measures – encourage participants to act in a particular way

THE AUTHORITY: WHAT?

The rules of play deal with activities across the supply chain



- Interactions – consumers/participants
- Transmission and distribution pricing – how the pie is divided

THE AUTHORITY: HOW?

Parliament requires us to act for the long-term benefit of consumers

- We must promote competition in, reliable supply by, and efficient operation of, the electricity industry for the long-term benefit of consumers
- We have four main activities
 - Watch and query participant behaviour
 - Administer the 'back-office' systems
 - Develop and make the rules
 - Enforce the rules

OUR FOCUS: RETAIL COMPETITION AND EFFICIENCY

We are working to promote opportunity and choice

- Lowering barriers to entry and expansion
 - To facilitate innovation in services and business models
- Facilitating consumer participation
 - It is not all about the 'traditional' supply side
- Promoting efficient pricing
 - Prices matter because they provide information for making decisions

RETAIL DATA PROJECT

Making it easier for consumers to make choices

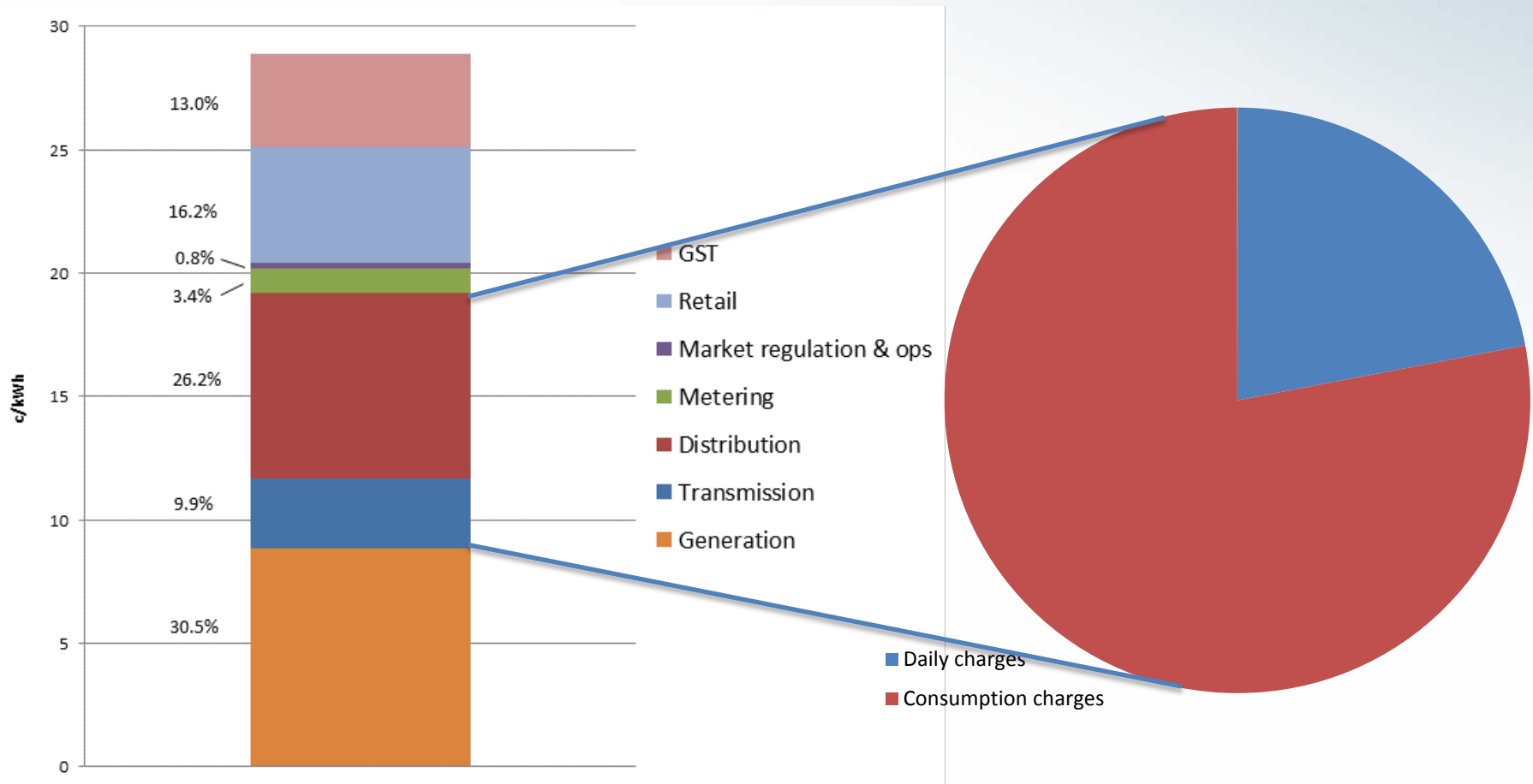
- Easier access to information ⇒ engaged consumers ⇒ vigorous competition ⇒ innovation
 - your consumption data
 - about your point of connection (from the Registry)
 - retail price data
- There are more and more parties that want to help consumers make decisions

IMPLICATIONS OF EVOLVING TECHNOLOGIES FOR PRICING OF DISTRIBUTION SERVICES

Distribution prices should be based on the cost of the distribution service

- Your distributor is selling you:
 - connection – plugging in
 - access – the opportunity to use the capacity of the distribution and transmission network
- Retailers buy electricity from generators and resells it to consumers – they use the network to get the electricity to you
- You can sell services to the distributor
 - services that let the network do more with the same assets

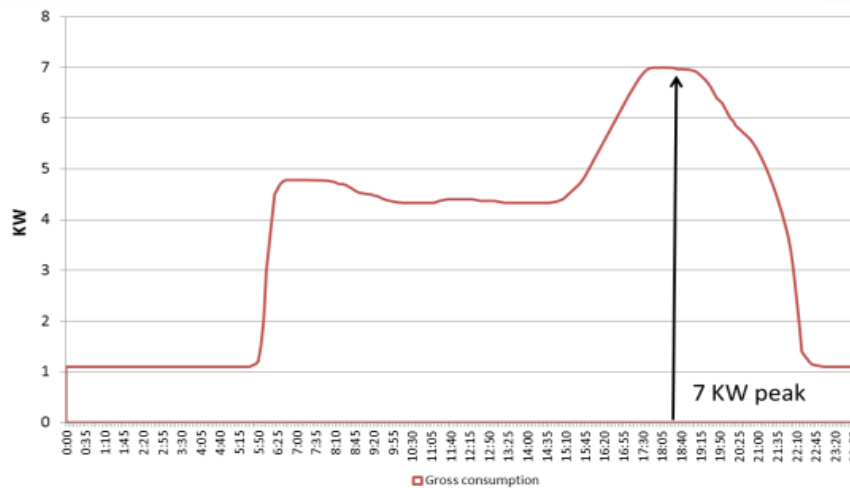
DISTRIBUTION NETWORK COSTS ARE RECOVERED VIA CONSUMPTION CHARGES



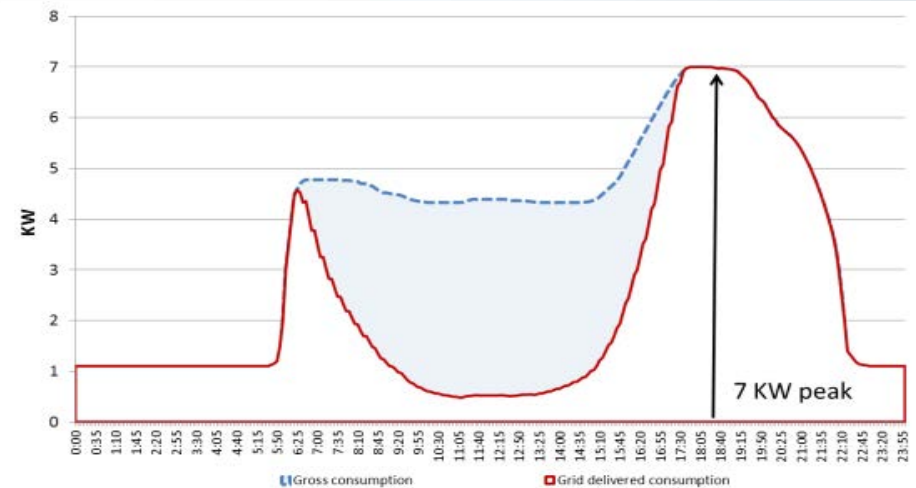
DISTRIBUTION PRICING NEEDS TO EVOLVE

Peak demand is what drives network costs

Household without solar



Household with solar

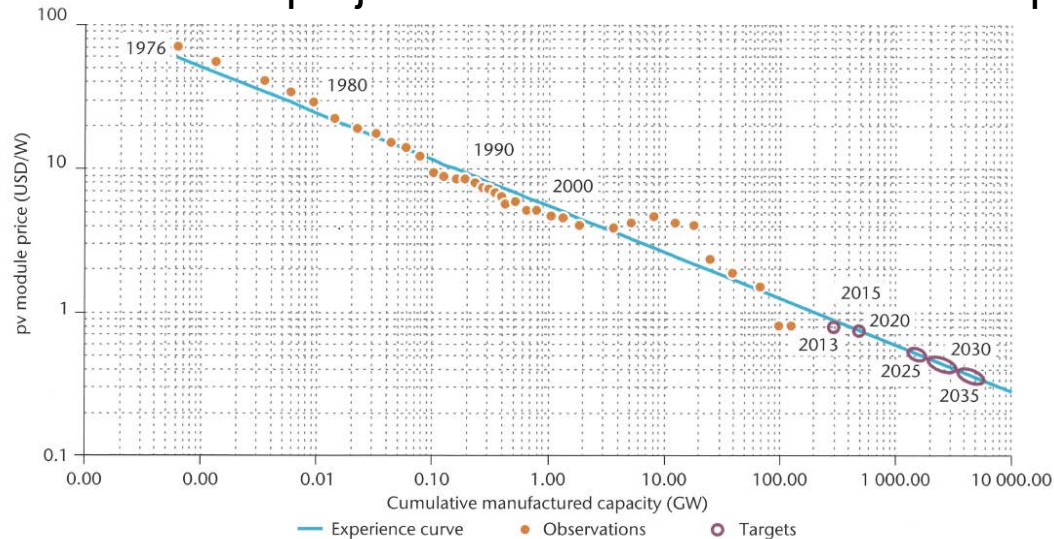


- Prices should align with the cost of the service
- There is no one-size-fits-all approach to pricing

EVOLVING TECHNOLOGIES WILL DRIVE DOWN PRICES

Consumers increasingly have alternatives to grid supplied electricity

Historic and projected decrease in cost of solar panels



- Distributors and generators will eventually be forced to set prices to reflect the competition
 - When the alternatives provide a service that satisfies a critical mass of consumers

ACTION NOW IS A NO REGRETS APPROACH

We think NZ will face significant costs if prices don't evolve

- Distribution prices are not based on the cost of providing distribution services
 - We would advocate service-based pricing on principle
- We estimated the effects of staying with the status quo because people would ask
 - The estimated cost to society of \$2.7-\$5 billion from specific investments signals a direction
- We think it is better for society for distributors to act sooner rather than later
 - We see that many distributors are acting now

WE ARE SEEKING FEEDBACK

Submissions by 2 February 2016

QUESTIONS?

COMPETITION • RELIABILITY • EFFICIENCY