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## Consultation Paper - Reorienting advisory groups

The Wholesale Advisory Group (WAG) was established in 2011 as one means by which the Authority meets its statutory requirement to seek industry advice on its rule making<sup>1</sup>.

The group is currently made up of nine members with a broad array of expertise in the electricity industry, providing independent advice to the Authority Board<sup>2</sup> specifically relating to the design of the wholesale electricity market.

The WAG welcomes this initiative by the Authority, as the paper notes the proposed changes to the advisory groups was in part a response to the joint advice we provided with the Retail Advisory Group in March this year that:

- a rapidly evolving electricity sector increasingly makes the standard industry demarcation between wholesale and retail markets obsolete, and that
- allocating projects to both advisory groups was more likely as a result.

Members of the WAG are appointed for their knowledge and experience of the electricity industry. They also have a familiarity with the Authority's working arrangements and the associated advisory group process. The WAG has discussed the consultation paper on reorienting advisory groups and has prepared this submission in the hope that our perspective on the issues raised in questions 1 to 4 will be of use to the Authority in its deliberations.

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<sup>1</sup> Electricity Industry Act 2010, s21(1) – Other Advisory Groups: <http://tinyurl.com/ElecIndusAct2010>.

<sup>2</sup> Details about the WAG members can be found on the Authority's website: <http://tinyurl.com/WAGMembers>.

## Question 1: What feedback do you have on the proposed IPAG, including its purpose and scope?

The mechanics of how the Authority's advisory groups operate are set out in two documents: the *Charter about advisory groups*<sup>3</sup> and the *WAG's terms of reference*<sup>4</sup>. The formality of these arrangements means that the WAG is only able to work on projects that:

- are on the Authority's work programme
- the Authority explicitly seeks the WAG's advice on.

Sections 2.4.1 to 2.4.5 of the consultation paper propose a similar arrangement for the proposed Innovation and Participation Advisory Group (IPAG). Given that group's proposed focus on 'issues inhibiting the entry and participation of evolving technologies and new business models in the electricity industry... (and) ... enhancing consumer participation and choice', it may better serve the Authority's purpose to give the IPAG greater freedom in setting its own agenda.

Although the current advisory groups are able to suggest projects for the Authority's work plan that they may be asked to take on by the Board, this can take years. Regulating innovation may be an oxymoron, but using the experience of innovators to detect and then break down barriers could be an effective means to the Authority's end if the proposed IPAG has some discretion to identify and pursue topics for its work, provided they are consistent with the Authority's statutory objective.

This would suggest that the IPAG should have a considerably freer remit than the consultation paper proposes: examining operational efficiency issues across the sector's supply chain in its entirety. This would entail a focus on making the operational aspects of the market simple and nimble, considering issues new entrants will find frustrating to face (such as data exchange protocols and system operator tools) and prioritising them for resolution. Often these issues will be largely associated with freeing operating arrangements from the practical constraints of the 1990s operations under which the rules were written.

This reoriented focus would be driven by participant concerns while potentially encompassing feedback from non-participants, such as consumers and potential new entrants. Such responses would provide the proposed IPAG with a sound basis to review alternatives against the Electricity Industry Participation Code. As an example:

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<sup>3</sup> <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/#ag-charter>

<sup>4</sup> <https://www.ea.govt.nz/dmsdocument/10323>

*A local network has stipulated that shopping centres required 11kV metering if they were configured as embedded networks.*

*The 11kV metering is not required for reconciliation purposes and is much more expensive than 400V metering. The shopping centre believes the purpose of the local network's metering requirement is to make the establishment of embedded networks more expensive.*

*In this context, the proposed IPAG could:*

- *consider the situation and form a view on whether the behaviour of the local network was consistent with the Authority's statutory objective of promoting competition in the market*
- *consider a range of actions they could recommend the Authority might take if the Authority considered the behaviour was inconsistent, including*
  - *meeting with all affected parties to understand the background to the issue*
  - *reinforcing the use of the existing regulatory framework by proactively identifying Code breaches on non-compliance with guidelines*
  - *modifying distribution pricing guidelines or amending Code provisions*
  - *meeting with the Commerce Commission to highlight this type of competition issue and identify potential responses*

Under such a model, it is clear that the proposed group's role is to facilitate innovation and listen to innovators' concerns. To make this clear, it may be appropriate to give it a different name from 'Innovation and Participation Advisory Group' as it is not the group itself that would be innovating.

## **Question 2: What are your views on the membership of IPAG, and how to engage the sorts of parties that will ensure it can achieve its purpose?**

The WAG agrees with the suggestion in Section 2.4.8 of the consultation paper that it would be helpful if the group included members with diverse backgrounds, but considers that the Authority's advisory groups would be most effective if they had a relatively mixed membership consisting of both new and traditional participants.

In a similar vein to the suggestions in Sections 2.4.7 and 2.4.9 of the consultation paper, these members could be drawn from a pool of:

- traditional industry participants
- technology experts
- innovators
- international experts
- related utility industries (such as telecommunications and data service providers)

There are two reasons for seeking this kind of mixed membership:

- A particular challenge for new entrants to the sector is that they have ideas which do not necessarily mesh with the realities of the mechanics of the industry. The key value of the proposed IPAG will be in identifying *evolutionary* rather than *revolutionary* developments. This requires a group of people who understand the orthodoxies of the existing arrangements, but have insight into their limitations and can hence identify how to modify the arrangements to support greater innovation and participation.
- There are very few people in the industry that can cover the full supply chain. Most people in the industry have more expertise in particular areas (upstream / downstream aspects of the energy sector or experience in other industries). A mixed membership would ensure broad expertise that span the full supply chain. The WAG has found the diverse backgrounds of its members to be invaluable in supporting in-depth conversation and robust recommendations.

A strong incentive for WAG members to participate in the group has been the ability to influence energy market design and operation. It is clear to members that the Authority Board gives weight to the advice they provide and is strongly influenced by consensus recommendations. Changes to the prudential security requirements and the introduction of the net pivotal rules are particular examples where the WAG's influence has been readily apparent.

This formal link between the advisory group and the rule maker differentiates the Authority's advisory groups from other industry groups like the Smart Grid Forum who have a less direct relationship with the agencies with the power to change rules and legislation.

As mentioned above, WAG members have also found the advisory groups to be a constructive environment for shared learning. Working on detailed issues with other people from an assortment of backgrounds has helped build individual knowledge to the great benefit of each member.

In establishing its new advisory groups, the Authority can attract participation by ensuring these sorts of incentives continue.

As we note above, even straightforward issues can take around two years to progress from an suggested project to an implemented rule change as the initiative steps between:

- Suggestion
- Inclusion in the Authority work plan
- Allocation to an advisory group
- Investigation
- Industry discussion
- Group recommendation
- Board deliberation
- Industry consultation to
- Code amendment.

This kind of prolonged process would not meet the needs of innovators, who would rely on the operational framework of the market keeping pace with technological evolution.

The Authority should consider whether and how the development process could be managed to better suit a group like the proposed IPAG. For example, there might be opportunities to fast track 'low-hanging fruit' developments.

### **Question 3: What are your views as to how the IPAG might operate, so as to best achieve its purpose?**

WAG members note that their participation in the group has required a reasonable commitment of time in order to consider all meeting materials, be available for all-day meetings every 6-8 weeks and to accommodate offline conversations and emails. This has entailed a sustained responsibility for each member over their two-year term. As Sections 2.4.14 and 2.4.15 of the consultation paper indirectly note, this kind of obligation is unlikely to be attractive to time-poor innovators.

Furthermore, WAG members consider that a standing group focused on innovation is something of a contradiction because the parties innovating will be changing all the time. It may therefore be more appropriate to assemble a pool of members for the proposed IPAG before setting up technical sub-committees to tackle particular issues on a short-term basis, an option Section 2.4.11 of the consultation paper envisages.

In terms of convening discussions between members, the WAG has experimented with webinars and teleconferences in the past. While these have generally served their purpose, there are significant benefits to face-to-face interaction.

Other industries such as the pharmaceuticals industry have used intensive workshops to accelerate investigations to the point of achieving agreement and decision making within a matter of days rather than months<sup>5</sup>. These span no more than three days and seek to identify a solution to a given problem within that timeframe. Participants are generally not required to undertake any prior work and are given all the information to appreciate the issues at the workshop. Between sessions, participants have the opportunity to discuss, contemplate and test ideas with each other as well as their colleagues while the secretariat has the opportunity to conduct further analysis to help inform the group's further consideration.

The Authority could draw inspiration from this approach to fashion an arrangement which obtains the most value from time-poor people seeking rapid alterations. If a similar approach could be used for the proposed IPAG, it would also be conducive to participation by international experts and parties outside the energy sector.

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<sup>5</sup> See for example: <https://www.capgemini-consulting.com/acceleration-capabilities/accelerated-solution-environments>

#### Question 4: What feedback do you have on the proposed MDAG, including its purpose and scope?

The consultation paper envisages that the proposed Market Development Advisory Group (MDAG) would focus on the 'machinery' of the markets.

Noting this, the WAG observes that the proposed MDAG would be responsible for higher-level projects involving large, economically complex issues such as cost allocation. This provides a clear division of responsibility when compared to the purpose and scope of the proposed IPAG the WAG has suggested.

Such a division would also mean the MDAG would align more closely to the Authority's work programme with a work plan similar in structure to the RAG and WAG.

Just as we have suggested ways by which the IPAG may need to engage with participants and stakeholders in different ways from those that the WAG and the RAG have used to date, there would be benefit in the Authority exploring new mechanisms for the MDAG to achieve the same with its stakeholders. We note that the Authority intends both groups to advise on the entire supply chain and that relying on individual members' personal expertise needs to be reinforced with visits to participants' sites, presentations from stakeholders and direct interaction with the Authority's Board.

Yours sincerely,



**John Hancock**  
Chair  
Wholesale Advisory Group