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Submissions
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Consultation Paper - Reorienting advisory groups

As Chair of the Wholesale Advisory Group, I have coordinated a separate submission to the Authority on behalf of the members. This is a submission in my own right, reflecting not only on this experience but also as Secretariat of the NZ Smart Grid Forum which has some similar characteristics. I hope my comments are helpful.

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

The Authority has suggested that both IPAG and MDAG span the entire supply chain which deals with the concerns about boundary issues that WAG and RAG raised earlier in the year.

The reference to innovation in the IPAG's name is potentially confusing as it's clearly not the intention that market innovation happens in the group - rather that it reduces barriers and improves consumer participation so that people can innovate in the industry. It might be clearer to call it something like the 'market access and participation' advisory group?

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?

Our electricity market does a good job providing balancing electricity over the grid and open network access. The constraints that its rules represent are relevant to how it can evolve to accommodate new operating models – some reflect the laws of physics.

In forming the group, it would be helpful for the Authority to talk to people who have joined the industry recently. They will have relevant ideas about how best others like them can be brought up to speed with the way things work now and why the rules exist. Not all of our rules can be changed however much we might want to remove constraints to innovation and participation.

In my experience busy commercial people find policy development processes to be slow-moving and frustrating – if the intention with IPAG is to engage entrepreneurs and potential new entrants to the sector it may be better to focus the group on activities rather

than creating documents – the form of the group’s outputs might be more in the form of models, pictures and prototypes than conventional papers.

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

Section 2.4.9 suggests that the group might include some people who are quite different from the ones who sit on WAG and RAG at the moment. These types of people will have fresh perspectives but may have a less strong incentive to dedicate time to the group so it may be necessary to find ways of allowing them to engage without having to travel to Wellington every month or so or review papers between meetings. Collaboration technologies may be helpful here.

Question 1 points to the need for facilitated upskilling and education of members around how the current rules work and why – this may need to be delivered in a tailored and rapid format.

Question 2 points to the impatience that commercial people may have with bureaucratic processes. I do wonder if that may open the door to an entirely different way of working – bursts of activity on particular issues in which all the resources required to understand and solve a problem are available within the event with no pre-work or follow-up required.

I’ve found that heavily-facilitated scan-focus-act workshops with deep on-site analytical support can achieve this in a day or less. They are expensive and time consuming to organise but can achieve as much in a day or two as conventional processes do in months which is more engaging and time-efficient for all participants.

The approach has worked well for similar initiatives in other industries. GS1 – the standards organisation that develops and maintains standards for supply and demand chains such as barcodes - used a scan-focus-act approach to evaluate and agree on changes necessary to the standards to accommodate the diversity and ubiquity of online channels for buying and selling over the internet¹. One participant talked about how the topic “had spun around in industry forums for 3 years with a high degree of polarisation without any consensus or conclusions” and that this approach brought it to global consensus within 12 weeks.

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

If the MDAG is to focus on efficient pricing, capacity and energy risk management and electricity market operations, some of the areas that it is asked to advise on will be highly material to market participants.

The Authority’s experience with TPAG is that material winner-loser issues such as changes sunk transmission cost allocation do not lend themselves to collaborative consensus-based processes such as these.

¹ There’s a 2 minute video on this project at <https://www.youtube.com/watch?v=omT0QEFDbE>

My experience with the WAG has been that participants will work hard to find consensus on material issues if they believe that their consensus advice will have more influence on rule changes than special pleading as individual companies. It will be important not to give projects to the MDAG that have material winner-loser characteristics so that the group is able to gain similar confidence in its superiority as a means of influencing rule making in order to be motivated to find common ground on divisive issues.

Question 5: What are your views as to the membership of the MDAG, and how it should operate?

I agree that the membership of MDAG is likely to be similar to the WAG and RAG – incumbents have the strongest incentives to participate in longer-term projects around market efficiency.

Members are appointed for their individual expertise and experience and expected to provide impartial and independent advice but the group's durability requires the wider industry to accept that it is a more effective means of influencing the Board than special pleading. Given the potential materiality of the issues that MDAG will investigate it is important that members are senior enough to be able to reassure colleagues and peers in the industry about the compromises the group has made to achieve consensus solutions.

The Authority Board has been consistent in generally accepting consensus recommendations from the WAG and the RAG that are consistent with its Statutory Objective. My experience is that this track record is profoundly important in motivating members to find common ground on issues when making recommendations – even more so when the Board accepts recommendations that are not the same as its preliminary views on those issues.

Human dynamics are equally important to the effective operation of any group such as this – having the time and opportunity to work with and gain respect for colleagues is important if members are going to compromise in order to find common ground. On the WAG, it has been particularly helpful for members' terms to rotate out of phase with one another so that there is always a core of members who know one-another well and new members enter a constructive environment in which it is clear that all contributions are valued.

Question 7: Do you agree with the Authority's assessment of its proposals? If not, what alternative assessment would you make and why?

Yes but I would note in 4.1.1 that advice on efficiency requires removing barriers not only to "how electricity is generated, stored, transported and purchased" but also how it is used.

The falling costs and improving capabilities of energy management and sensing technologies mean that there will be increasing opportunities for the economic automation and dynamic response of devices of all sizes from industrial plant to home appliances. These opportunities will rely as much on access to and participation in elements of the electricity markets as new models of commercial generation, storage, transportation and sale.

Industry consensus decision making was an effective way of developing technical rule changes in the self-governing arrangements of MARIA and NZEM but did not proactively pursue a public benefit objective function. The Authority's history with advisory groups has worked well – it has harnessed the effectiveness of such processes to the Statutory Objective.

The speed with which distributed energy resources and the new business models they enable are providing economic alternatives and complements to grid-reticulated electricity has caught many by surprise. The speed that the Authority has progressed its proposed changes to ensure New Zealand consumers are able to benefit from them is admirable – thank you for the opportunity to contribute my thoughts on the proposal.

Yours faithfully,

John Hancock