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Multiple Trading Relationships

Submission to the Electricity Authority

Final

From the Electricity Networks Association

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1. Introduction

1. The Electricity Networks Association (ENA) appreciates the opportunity to make a submission to Electricity Authority (authority) on the consultation paper **Multiple Trading Relationships – How can consumers choose multiple electricity service providers, 28 November 2017 (the Consultation paper)**.
2. The ENA represents all of New Zealand's 27 electricity distribution businesses (EDBs) or lines companies, who provide critical infrastructure to New Zealand residential and business customers. Apart from a small number of major industrial users connected directly to the national grid and embedded networks (which are themselves connected to an EDB network), electricity consumers are connected to a distribution network operated by an ENA member, distributing power to consumers through regional networks of overhead wires and underground cables. Together, EDB networks total 150,000 km of lines. Some of the largest distribution network companies are at least partially publicly listed or privately owned, or owned by local government, but most are owned by consumer or community trusts.

2. ENA submission

3. ENA appreciate the opportunity to comment on the potential for greater choice for consumers in electricity markets. ENA encourages the Authority to engage with industry and support our collective efforts to provide long term benefits for consumers through greater choice of market participation and of service providers.

2.1. In-principle versus in-practice

4. In principle, creating a more permissive, supportive set of enabling rules to allow multiple trading relationships is superficially attractive and could be seen to improve competition, and possibly reliability, in the electricity market. Nevertheless, on a practical basis there are likely to be significant transaction costs associated with enabling multiple relationships, for which there may be only a limited market, though all consumers would have to pay for the establishment and enablement costs.
5. The Authority also suggests that, in principle, it could be necessary for distributors to split their charges across multiple retailers. This would potentially add to industry costs, as distributors reconcile volumes for a single customer across multiple retailers. An alternative, which would avoid such costs, would be for distributors to recover their costs through a “primary” retailer, which would likely be required to manage the customer relationship in terms of outage communications, disputes, meeting network connection standards, connections and disconnections and medically dependent and vulnerable consumers. Customers, for example, are unlikely to appreciate receiving multiple notifications from retailers of planned outages, for example.

2.2. Consumers evolving needs

6. Consumers want simplicity and convenience from their electricity supply – multiple trading relationships for a commodity product at an individual consumer level would appear to fly in the face of what most consumers are likely to want. The trend towards increased bundling of products (gas, electricity, LPG, telecommunications) on the same bill would suggest that the consumer market for multiple providers is

likely to be relatively limited. Instead, the ENA would suggest that the market is likely to develop in the direction of retailers adding to the service bundle with energy management solutions for households, as well as solar, battery and EV related-services. Indeed, it seems much more likely that integrated services will be required to deliver optimal outcomes for consumers, rather than the management of discrete elements such as battery or electric vehicles, distinct from other loads.

7. ENA members think that the Authority needs to examine how consumers can achieve the benefits of new technology at lower cost. We explain by way of example; a consumer may not need a direct relationship with a distributor in order to achieve a benefit from managing loads to achieve a reduction in network charges. We would expect this to be achieved through competition in the retail market passing through network price signals, whether commonly through standard network pricing, or bespoke incentive arrangements where network businesses seek to provide price signals to particular zones of the network where capacity is becoming constrained. Similarly, we would expect retailers to develop aggregation models to respond to a Transpower demand-response programme.

2.3. Market pricing signals

8. The Authority posits some examples of consumers being able to take different service packages from different agents:
 - Selling self-generated electricity (e.g. from solar panels) to one retailer/intermediary and buying from another;
 - Buying base-load generation from one retailer and peak-load generation from another;
 - Buying base-load generation from one retailer and peak-load generation from another, and EV charging from yet another.
9. In each of these cases, given competitive markets across all of the relevant inputs, it is unclear why prices for each of the components would not be driven towards costs, especially given there is a transparent wholesale spot market and hedge market that underpins the prices for each of these components. If there are concerns that competition between retailers would not drive prices towards costs in each of these scenarios, then the Authority should examine whether there are market failures in each of the relevant markets (wholesale spot and hedge markets) that prevent this occurring.
10. In respect of EV charging, it is unclear why this would need to be a separate service from the purchase/sale of retail electricity. Indeed, it is hard to imagine the advantages of separating EV charging from the rest of household load, especially in a world where it is highly likely that consumers will face network demand or capacity charges. In this environment, an integrated view of consumption/demand is likely to be essential in managing network charges. For example, if a consumer had a fixed budget for electricity use and wanted to ensure he or she did not exceed a certain capacity limit, then EV charging would be scheduled to take place at a time when the remainder of household demand is at or below a certain level.

2.4. The EA focus

11. The central question that the Authority needs to be examining is the likelihood that specialised provision of distinct energy services is required to achieve improved competition and efficiency, or whether retailers (driven by competition) will achieve these benefits through bundled services around the core commodity product. ENA members consider that there are almost certain to be very substantial costs

associated with re-engineering the electricity market to allow multiple trading relationships, compared with highly uncertain benefits (at least at this stage), so any policy developments in this area need to be justified by a strong magnitude of benefit and not be purely speculative.

12. Consider the simple case of a dual trading relationship that involves selling solar PV generation to one retailer and purchasing grid energy from another. This compares to an integrated retailer performing both sales and purchases. Suppose that a specialised solar purchaser could achieve *improved* prices for the solar output of 1 c/kWh, compared to a typical 8c/kWh price, which seems common in the market (or a 12.5% improvement). At around 2,000 to 3,000 kWh injected per annum from a typical PV array, this would translate to a consumer benefit of \$20-30 per annum. Clearly, a retailer purchasing consumer-generated solar will have overhead and customer-related costs to cover, so much better margins would need to be achieved through this specialised activity. However, this seems unlikely, given the 8c/kWh rate appears to be a fair representation of average wholesale prices.¹

2.5. Data is the enabler

13. ENA members are not persuaded that the industry needs to be re-engineered to provide for multiple retailers at an ICP. Members do however, share the Authority's concerns that retailers have the ability, and incentive, to create barriers to the free-flow of metering information to the providers of services to end consumers. Again, by way of example, suppose that a battery/solar PV provider could manage the charge/discharge of a residential battery to optimise the bills for residential consumers.
14. The service provider does not need to be a retailer to do this, all they need is access to data. Access to metering information may be useful in this context, particularly if real-time information on total household load is required to ensure the optimal system use.
15. The Authority should investigate whether there are inappropriate barriers to various parties (including consumers and EDBs) acquiring the data they need to enable greater market participation. It may be more efficient to allow consumers (or their delegates) to have the opportunity to request access to their metering information directly from meter data managers, rather than via their incumbent retailer.

¹ A bigger concern would be a lack of transparency in retail pricing that leads customers to believe that they are receiving the same energy price for their solar sales as they purchase at. This can presumably only be achieved by ramping up the purchase price to fund the high solar purchase rate.

3. Appendix

The Electricity Networks Association makes this submission along with the explicit support of its members, listed below.

Alpine Energy
Aurora Energy
Buller Electricity
Centralines
Counties Power
Eastland Network
Electra
EA Networks
Horizon Energy Distribution
Mainpower NZ
Marlborough Lines
Nelson Electricity
Network Tasman
Network Waitaki
Northpower
Orion New Zealand
Powerco
PowerNet
Scanpower
The Lines Company
Top Energy
Unison Networks
Waipa Networks
WEL Networks
Wellington Electricity Lines
Westpower