



Chairman: Warren McNabb,
warren.mcnabb@altimarloch.com
Secretary: David Inch, david@nzenergy.co.nz

11 July 2017

Submissions
Electricity Authority
P O Box 10041
Wellington 6143

By email: submissions@ea.govt.nz

Dear Sir / Madam,

RE: Enabling Mass Participation Issues Paper

The Independent Electricity Generators Association (IEGA) welcomes the opportunity to make this submission on the Issues Paper about enabling mass participation published by the Electricity Authority (Authority) on 30 May 2017.

The IEGA comprises about 40 members who are either directly or indirectly associated with predominantly small scale power schemes connected to local networks throughout New Zealand for the purpose of commercial electricity production.¹

We agree the electricity industry is changing. It is critical that the Authority's analysis and assumptions are technology neutral and consistent in evaluating any possible changes to the Electricity Industry Participation Code. The rules must apply evenly to all activities that provide the same products or services creating a level playing field.

Consistent approach across different workstreams

IEGA wishes to highlight that there are a number of comments in the Issues paper that are inconsistent with the Authority's position in its decision and consultation on changes to Part 6.4 of the Code. To be explicit, these are listed in the table overleaf in the order they appear in the Issues paper.

Existing DG is no different to the new technologies this Issues paper is attempting to analyse / accommodate. Hydro power stations connected to local networks are batteries in the current electricity system – ready to deliver electricity to local consumers. We have no control over the wholesale spot price determined by the vertically integrated gentailers but existing ACOT agreements incentivise DG owners to generate during periods of peak demand and provide network support services that reduce or defer network investment – as explained by the Authority in this Issues paper.

¹ The Committee has signed off this submission on behalf of members.

Authority's comments in Enabling Mass Participation Issues Paper	IEGA comments
<p>Mass participation will bring significant benefits</p> <p>"2.12 b) competition will lower the costs of electricity supply across the supply chain. For example, more demand response, storage, or surplus generation will provide distributors with cheaper alternatives for maintaining network reliability and will help to reduce or postpone network upgrades. The reduced costs will be passed on to consumers."</p>	<p>Why will 'surplus generation' provide these benefits when the Authority assumed in its DGPP decision that some existing DG (which are already network alternatives) is inefficient?</p>
<p>There are several comments that demonstrate that the Authority believes there are benefits from managing peak demand volumes:</p> <p>Benefits from a more efficient electricity industry</p> <p>"2.21 Consumers that are more responsive to electricity prices make the market more efficient because it reduces ongoing costs of generating electricity to meet demand, and avoids incurring costs associated with expanding the capacity of the network."</p> <p>More parties can now compete to help provide network service</p> <p>4.6 Transpower and distributors commonly use load management (also called load control) or demand response to help maintain the reliability of the network service. ... Consumers that reduce their consumption in this way are compensated for the network support service they provide."</p> <p>4.8 b) in the long-term, the network support reduces or defers investment in the network which means consumers pay less in the future for the network services because there is no need to recover the investment cost."</p>	<p>These comments show a clear belief that peak demand volumes drive the need for distribution and transmission infrastructure investment. This contradicts the DGPP decision when no benefits were taken into account from DG generating during periods of peak demand and avoiding or deferring investment. Transpower estimate that DG supplies 9% of gross peak demand volumes (and load control 16%).</p> <p>Distributed generation provides the same network service – reducing the volumes imported from the transmission grid during peak demand periods. Compensation for this service from DG must be commensurate with the payments to consumers (the current payments for load are about twice that paid to DG).</p> <p>Distributed generation has been incentivised to supply volumes of electricity into a local network during peak demand periods (determined by volume not price). This incentive no longer exists. The test to receive an avoided cost of transmission charge is now a one-off test about whether the DG is expected to contribute to achieving grid reliability standards during a fixed period of three years. Will this test also apply to new distributed generation technologies?</p>
<p>Open access means the network is a level-playing field – paragraphs 5.3 & 5.4</p>	<p>The Issues paper describes a number of concerns about actions a distributor or Transpower could take that might arise without open access. These are all concerns that were addressed in developing Part 6 of the Code on enabling connection and pricing of distributed generation.</p> <p>A model use of system agreement for distributed generation would be useful and compliment the standardised requirements in Part 6 of the Code.</p>
<p>More diverse sources of electricity supply and increased demand response could improve competition</p> <p>"8.1 Technology change is likely to drive new forms of smaller and medium-sized generation ... These developments will promote more competition in the wholesale electricity market, particularly at the regional level, and perhaps on the retail market."</p>	<p>Our members are the "medium-sized generation" supplying electricity into distribution networks. We are supporting retail competition by offering new entrant retailers contracts – that are unavailable from incumbent vertically integrated gentailers.</p>
<p>Changes the Authority could consider to promote efficient investment</p> <p>"8.9 ... Transaction costs can be large relative to projected revenue, particularly for small-scale generation ..."</p>	<p>The IEGA totally agrees that transaction costs can be large relative to projected revenue. This is one of the key reasons why the Government introduced the Electricity Governance (Connection of Distributed Generation) Regulations 2007 to facilitate connection of distributed generation. The Issues paper shows that the Authority is cognisant of the impact of transaction costs and yet the Cost Benefit Analysis for the DGPP decision assumed no or minimal transaction costs.</p>

Consistent approach across different technologies

The rules and arrangements governing the making, transporting and selling of electricity are highly complex. Overall, there must be equal treatment for all technologies providing the same products and/or services. But thresholds may be appropriate. The Code includes well considered thresholds where the costs associated with participating are disproportionate to the harm caused by not participating. IEGA supports the use of thresholds and notes that good regulatory practice requires an approach that is proportionate, fair and equitable in the way it treats regulated parties.

The IEGA cautions the Authority to ensure its current review of the rules clearly focuses on how to create long-term benefits for consumers (and not incumbents). Consumers are likely to be driving a range of the changes the Authority is trying to manage. Consumers are not (usually) economists and are free to make investments taking into account their own priorities and preferences. The Authority's role is to ensure a level playing field with consistent rules for all players.

International experience

New Zealand is not alone in facing technology change and/or change in the way consumers buy and/or use electricity. Some jurisdictions are ahead of New Zealand in incorporating these changes (as a result of policies that have encouraged distributed energy resources). The IEGA suggests the Authority review overseas approaches with the aim of bringing the best approach or rules to the New Zealand situation.

We note that the Australian Energy Market Commission (AEMC) released a draft report² on 6 June 2017 on its Distribution Market Model project. The context for this report³ sounds remarkably similar to the Authority's enabling participation Issues paper:

"The uptake of rooftop solar photovoltaic systems, battery storage, electric vehicles, smart energy appliances and other technologies at the distribution level in Australia's electricity sector is having a significant impact on the way that consumers use electricity."

The AEMC goes on to say

"The draft report presents a view of what future distribution network operation might look like, guided most strongly by the principles of competitive neutrality and consumer choice."

The balance of this AEMC report about supporting a competitive market for distributed energy resources provides some useful pointers for the Authority's work programme.

Develop future scenarios using a cross agency review team

We suggest a comprehensive review of the Code to enable mass participation can only take place after a cross agency review team describes a future, or future scenarios, that might be possible in New Zealand and consults on this future state. (This would be similar to Transpower's Transmission Tomorrow report but for the electricity market.)

This work on a possible future state is, in the IEGA's view, wider than the Authority's mandate which is why we suggest a cross agency team – taking into account other government policy objectives such as climate change targets, and focus on electrification of transport and industrial heat processes.

² <http://www.aemc.gov.au/getattachment/25e63b7d-8c28-441b-b315-2d438f285d81/Draft-report.aspx>

³ <http://www.aemc.gov.au/getattachment/04f785cb-c745-433c-b2be-6029e6d7cada/Information-sheet-Draft-report.aspx>

Based on this information about a likely future state a first principles rule book could be drafted. The difference between the rules need for the future and the current Code would guide the Authority's work programme at an appropriate pace and level of "disruption".

Mass participation – at the extreme – could be a situation where all consumers are competing with each other to sell or buy electricity. In this environment a "rulebook" is irrelevant, as is regulation of what were monopoly businesses. Generic competition and fair trading laws would be the only 'constraints' on activity that are relevant.

Overall, our concern is to ensure that the Authority's approach is consistent across workstreams, and any change to the Code is technology neutral and ensures a level playing field for activities – existing or new – that provide the same products and services.

We would welcome the opportunity to discuss this submission with you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Warren McNabb', written in a cursive style.

Warren McNabb
Chair