



1 September 2021

James Stevenson-Wallace
Chief Executive Officer
Electricity Authority
Wellington

Dear James,

Level playing field should be provided for all access and wholesale services required to enable competition

Electric Kiwi supports the general proposition in the “Regulatory Settings” consultation paper that “Appropriate settings include improving competition for contestable services by removing barriers to entry and levelling the playing field”.

We wholeheartedly support the view that DER will play a critical role in delivering a low emissions future. As an independent retailer we have an important part to play in delivering practical and customisable flexibility services to our customers, orchestrating DER to minimise both cost and emissions. With distribution networks acting as a balancing mechanism amongst the flexibility traders, we believe it is critical that they provide dynamic and efficient cost signals to traders to fulfil their core role as the robust and reliable backbone of the flexibility market.

Project plan should be released

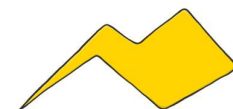
There has been a long-gap between consultations on this topic, with the last conducted by IPAG about 3 ½ years ago on “equal access”. It would be useful if the Authority provided details of its project plan going forward to help ensure the project is dealt with in a timely manner and given appropriate prioritisation, including next steps after the consultation, project milestones and target completion date.

Given the level of interest in the project, reflected in the attendance of the Sapere CBA workshop, we think there would be benefit in holding workshops on DER, and potentially on sub-topics given the wide range of matters covered, from Part 4 price regulation to equal (or open) access.

Level playing field should be provided for all access and wholesale services required to enable competition

While the consultation paper states “A level playing field is where all parties using the network can be confident that they will be treated equally and receive efficient and non-discriminatory terms to use the network”, this proposition is more appropriately generalised to access and wholesale services required to enable competition, including access to wholesale market hedging arrangements.

In terms of achieving the Authority’s statutory objective, specifically to promote competition for the long-term benefit of consumers, addressing current wholesale-retail problems is far more important than network issues and DER. There is clear evidence of wholesale-retail problems that are presently



undermining competition and preventing the Authority from achieving its statutory objective or strategic ambition of thriving competition.

There appears to be a perceptible difference in the Authority's thinking on issues around vertical-integration, access and competition in the consultation papers compared to wholesale-retail vertical-integration.

In relation to wholesale-retail vertical-integration, the Authority has talked about there being "perceived issues of vertical integration or market power",¹ and "perceptions of risk as to whether the large, established generator-retailers are compromising competition in the sector by: ... providing their retail arms with electricity on favourable terms ..."² The Authority hasn't expressed any similar reticence about whether potential network/DER problems are actual problems or just perceptions, despite the absence of supporting evidence in the consultation paper.

The December 2019 UTS and events of 9 August 2021 highlight issues of market power and vertical-integration in the wholesale-retail markets are real, harmful for consumers are more than just "perceptions".

Similarly, while the consultation paper advocates non-discriminatory terms, the Authority proactively defended discriminatory treatment of access seekers (independent retailers) by gentailers in relation to hedging arrangements, and setting of internal transfer payments at levels that are not available to independent access seekers.³ The options raised in the consultation paper such as arm's length rules and ring-fencing requirements are more likely to promote competition if applied to the large incumbent vertically-integrated gentailers, rather than electricity networks which already face vertical-constraints.

Care needed into the way DER 'regulatory problem' is defined

We note the Sapere CBA reflects modelling of an "ideal scenario" rather than a projection of potential real world outcomes, or the benefits of regulatory intervention. Our view is that the Sapere conclusion that "if DER were to realise its potential, the net benefit from 2021 to 2050 is expected to be \$7.1 billion in net present value" is likely to be overstated because it reflects both an unrealistic "ideal scenario" and a permissictic counter-factual which likely understates the amount of DER that will occur in a 'do nothing' scenario. We would also consider the statement "The size of the problem is proportional to the savings that could be achieved, less the cost of the intervention" needs to be treated with caution given the "\$7.1 billion" reflects an ideal scenario and therefore doesn't reflect the "savings that could be achieved".

The question the Authority should be considering is the extent to which problems in the market will inhibit the realisation of the potential benefits of DER.

Cost-effective, efficient and (near) real-time data flows required

The paper rightly points out the inefficiencies in the current data flows in the market. Current metering technology and contractual arrangements are not fit-for-purpose to deliver the data flows

¹ Electricity Authority, Hedge Market Enhancements Enduring market making approach, Decision Paper, 27 October 2020.

² Electricity Authority, Internal transfer prices and segmented profitability reporting, Consultation paper, 8 April 2021.

³ Electricity Authority, Internal transfer prices and segmented profitability reporting, Consultation paper, 8 April 2021.



required to orchestrate and optimise DER to truly enable a low carbon future. It is our view the Authority should be looking to encourage more competition and open access to metering. Access to real-time data does not need to be expensive as the technology already exists with advances in communications technology. It is the structure of the metering market which means metering companies are not incentivised to deliver these services. It is also our view retailers are willing (with the consent of their customers) to share ICP level consumption data with networks if the networks provide a commercial incentive to do so.

Networks should provide cost-reflective pricing

Electric Kiwi considers that ensuring network pricing is cost-reflective is the most important element of the potential regulatory interventions detailed in the consultation. This is one of the elements that fits most squarely in the domain of the Electricity Authority.

We reiterate:⁴

- “The focus of network pricing reform should be on benefits to consumers from incentivising efficient consumption behaviour. Cost-reflectivity should be the key criterion.”
- “The pricing principles should continue to recognise the primary driver for network cost and investment is network capacity. Network pricing should signal the cost of potential future investment needs.”
- “Electricity distributors should not shy away from complex, cost-reflective pricing. Price risk can be managed by electricity retailers on consumers’ behalf.”
- “Coincident Maximum Demand (CMD) pricing is the most cost-reflective pricing option. CMD should be given the highest star-rating. We consider CMD pricing to be superior to Time of Use (TOU) pricing.”
- “Network pricing should not discourage consumers using the network heavily at times when overall network load is low. Anytime Maximum Demand (AMD) is not a cost-reflective mechanism for the mass market and should be given a low star-rating.”

Cost-reflectivity should be the key criterion. We have previously commented “If retailers see cost-reflective pricing some will innovate to get the maximum engagement from their customers in minimising distribution costs” and “Cost-reflective pricing should be the focus and will mean retailers will be sent the right signal to encourage new products that engage consumers in the right ways”.⁵ While our comments were from a retailer-centric perspective the commentary is equally applicable to providers of DER etc.

Our views on network pricing are heightened by the Climate Change Commission’s commentary on the importance of managing peak-demand, and ensuring this does not result in higher network capacity investment requirements and higher network prices.

⁴ Electric Kiwi, Delivering better distribution pricing for consumers, 19 February 2019.

⁵ Electric Kiwi, Delivering better distribution pricing for consumers, 19 February 2019.



Concluding remarks

Electric Kiwi considers that the Authority's focus should be on:

- Addressing current wholesale-retail market problems which are inhibiting and reducing competition. The Authority should prioritise work-streams to ensure a level playing field between vertically-integrated incumbent retailers and independent retailers, where all retailers can be confident that they will be treated equally and receive efficient and non-discriminatory terms for financial hedging and risk management arrangements. This is essential if the Authority is to achieve its strategic ambitions of “thriving competition” and building “trust and confidence”;
- Reviewing the competition settings of the metering market to ensure it is also fit-for-purpose for flexibility markets to operate efficiently for the benefit of consumers; and
- Encouraging electricity networks to adopt cost-reflective pricing for their assets, which prioritises peak-usage price signals and sends appropriate signals for adoption of DER.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'L. Blincoe', with a long horizontal flourish extending to the right.

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