



Enel X
Level 8, 17 Murphy Street
Thorndon, Wellington, 6011
New Zealand
T +64-4-909-7546
www.enelx.com/nz/

Electricity Authority

Submitted by email: Distribution.Feedback@ea.govt.nz

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Dear Electricity Authority

RE: Updating regulatory settings for distribution networks – Consultation paper

Thank you for the opportunity to provide feedback on the Authority's review of regulatory settings for distribution networks. The paper provides an excellent summary of the issues, and the challenges and opportunities associated with greater DER uptake. It also presents a good picture of the trade-offs between various policy options.

Enel X works with commercial and industrial energy users to develop demand-side flexibility and offer it into wholesale capacity, energy and ancillary services markets worldwide, as well as to network businesses. Enel X has been offering customer load into the instantaneous reserve (IR) market in New Zealand since 2009. Enel X also provides forecasting for regional coincident peak demand and load bidding services for non-conforming nodes subject to the demand-side bidding and forecasting requirements.

This submission provides Enel X's views on matters raised in the consultation paper. In general, we support the scope of the paper and the range of initiatives identified for further consideration. We look forward to ongoing engagement with the Authority as it progresses this important work.

If you have any questions or would like to discuss this submission further, please do not hesitate to contact me.

Regards

Claire Richards
Manager, Industry Engagement and Regulatory Affairs
claire.richards@enel.com

Information on power flows and hosting capacity

We agree with the points made in this section about the importance of distributors having a greater awareness of what is happening within their networks, and for flexibility service providers to have access to this data. Clear, robust and accessible data about current and forecast network congestion will be particularly helpful to third parties proposing non-network solutions. In Australia, the Energy Networks Association produces network opportunity maps that provide information on network constraints, planned investment and the potential value of non-network options.¹ The maps compile various data sources from each network business and present it in an accessible digital format.

Electricity supply standards

While standards have an important role to play, they should not be used to mandate the provision of discretionary services or technical capabilities that may be better provided on a commercial basis in response to market signals. We also caution against using standards as the default solution to emerging challenges. NZ has the opportunity to proactively design incentive frameworks (e.g. tariffs, dynamic operating envelopes, new markets) that can be used to support the uptake of PV, batteries and EVs in a way that doesn't exacerbate the issues identified in this section. We encourage the Authority to explore these options before mandating technical solutions through standards.

We support the Authority looking into ways to harmonise network connection standards across NZ.

Table 4, in the row on batteries, states that there is no regulation covering small battery aggregations, and that this needs to be addressed. While the rules might not explicitly regulate aggregations of small batteries, an ICP with a battery behind the meter is, in many respects, no different to any other load co-located with generation. It's important not to regulate for regulation's sake. Further, given the pace of technological change and the emergence of new business models, a service-based (rather than asset-specific) approach to regulation may be more appropriate. This said, a broader review of aggregators' access to the energy and reserve markets will be important.

Market settings for equal access

This section of the paper presents an excellent summary of the issues. We agree with the Authority's description of the problem – that is, that distributors have an incentive to favour network solutions and to favour in-house solutions. We support the Authority's objective to develop a competitive market for non-network solutions, and for non-network alternatives to be procured competitively on a level playing field.

We also agree that the economic value of DER is substantially higher if it can be allocated to its highest value use across all flexibility markets. The importance of value stacking cannot be understated. While not within the scope of this review, a broader review of how DER aggregations can access the energy and reserve markets will be important.

¹ See: <https://www.energynetworks.com.au/projects/network-opportunity-maps/>

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In general, we support the scope of initiatives identified by the Authority to address the identified issues. However, our initial view is that light-touch initiatives like providing “education on flexibility services” or “requiring networks to disclose progress” are unlikely to have much practical impact. While it is appropriate to explore such options, the Authority’s objectives in this area are more likely to be achieved with stronger regulatory approaches, including:

- linking revenue to progress in use of flexibility services, and/or
- requiring networks to consider non-network options for network investments over a certain threshold.

Another option that could be explored is an allowance program similar to the demand management incentive allowance applied to distributors in Australia’s NEM. This program allocates a certain percentage of revenue for distributors to spend on exploring flexibility options.

It may be helpful to expand the scope of work here to explore what approaches have and haven’t worked in comparable markets.

Regarding ways to increase competition for flexibility services – again we don’t believe that light-touch “education” approaches will have much practical impact. We support the Authority looking into the cost allocation and related-party transaction rules, but at this stage believe that requiring competitive tenders for flexibility services, robust ring-fencing rules, and preventing networks from offering contestable services with DER will have the most impact.

Operating agreements

While there are certainly challenges, negotiating operating agreements is not the biggest barrier to greater uptake of flexibility services in NZ.

The identified contracting issues may well be resolved when the broader issues around incentives for distributors to explore non-network solutions and competition for flexibility services are addressed. If we can get to a point where non-network options are being thoroughly explored and there is acknowledgement that firm, reliable flexibility services are resources that require investment and therefore long-term contracts with revenue certainty, the contracts will take care of themselves. So, while we support consideration of the matters in this section, the Authority’s focus should be on resolving the other challenges identified in the *market settings for equal access* section.

Capability and capacity

In Enel X’s view, the biggest barrier to greater uptake of flexibility services for networks is the lack of scale. With 29 distributors, over 200 grid nodes, and a different congestion situation for each node, flexibility service providers have limited opportunities to scale and put forward a competitive offer. This is potentially something that a single DSO model could address.