14 September 2021

Electricity Authority
Level 7, Harbour City Tower
2 Hunter Street
Wellington 6011

Submission by email: distribution.feedback@ea.govt.nz

Dear Electricity Authority,

Re: Updating the Regulatory Settings for Distribution Networks

Thank you for the opportunity to participate in the Electricity Authority's consultation on updating the regulatory settings for distribution networks.

Simply Energy is supportive of the Electricity Authority's work in this area and acknowledges the importance to electricity consumers and New Zealand of ensuring regulatory settings support and enable a transition towards a lower emissions economy. We believe the development of competitive flexibility markets will be an important element of a low emissions energy system.

Please find our response to the consultation questions below.

Q.1 Have you experienced issues relating to a lack of information or uneven access to information?
From a consumption data perspective we haven't experienced issues relating to a lack of access to information as we install our own metering at sites participating in our Demand Flex program. The decision to install our own metering was not driven by a lack of access to existing consumption data, although we do note the importance of obtaining consumption data in real-time in order to be able to make market participation decisions, and in the past this service was limited in availability, faced technical hurdles, and/or was cost prohibitive through existing revenue meter providers (which may have changed). Additionally, while standards exist for the data transmission of interval data via EIEP3 formatting no such standardisation exists for modern data transfer at greater velocity.
Q.2 What information do you need to make more informed investment and operation decisions?
Information in an easily 'consumable' format which helps potential flexibility service providers to offer services to network operators. This could include: • Network capacity limitations across the network • Network loadings / open access to network monitoring and utilisation data • Thresholds for network upgrades • Traditional network investment upgrade requirements and estimated costsand timeframes Transpower's network opportunities mapping (and the transmission planning report) is a fantastic resource and could provide a template for distributors. However, it's still a lot of information for potential flexibility service providers to analyse to identify potential opportunities; a standardised, consolidated set of data could be helpful showing which investments over the next few years the network believes are most likely to be suitable for engaging with the market through an RFP process.

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Q.3 What options do you think should be considered to help improve access to information?
Standardisation of information, data and methodologies across distributors is essential. Publishing guidance for distributors to report on export congestion and network investment needs could be a step towards standardised information across distributors, which would lower the barriers to entry for potential flexibility service providers. Similarly, consideration should be given to whether there is merit in a central meter data store for network monitoring data, including making this information available and open access in a consistent format across distributors and aligned with the information available at a national grid / GXP level.
Q.4 Have networks experienced issues from the connection or operation of DER?
No comment.
Q.5 Do the Electrical (Safety) Regulations require review? If so, what changes do you think are needed (a) in the near term and (b) in the longer term?
No comment.
Q.6 Does Part 6 remain fit for purpose? If not, what changes do you think are needed (a) in the near term and (b) in the longer term?
No comment.
Q.7 Is there a case to be made for minimum mandatory equipment standards for DER equipment, specifically inverter connected DER?
No comment.
Q.8 What standards should be considered to help address reliability and connectivity issues?
No comment.
Q.9 Is there a case to look at connection and operation standards under Part 6 with a view to mandating aspects of these standards?
No comment.
Q.10 What flexibility services are you pursuing?
Simply is pursuing a range of flexibility services, including: • Interruptible Load / Reserves • Previous participant in the Transpower demand response program • Wholesale electricity market demand response through Contact • Transpower RFI/RFPs, eg recent Upper North Island voltage management RFI • Network RFI/RFPs, eg Powerco network support options for the Coromandel region • Demand management to reduce consumer electricity and network bill charges • Demand management to support electrification projects • Potential AUFLS provider of hardware and software services
Q.11 Are flexibility services being pursued through a competitive process?
Market based programs and RFI/RFPs discussed above are a competitive process.
Q.12 What options should be considered to incentivise non-network solutions?
We believe incentives are required as little progress is being made on the development of distribution flexibility markets. With regards to the ideas in the consultation paper: • Scorecards – doubt this will support progress, results of this approach for distribution pricing reform could inform potential use for incentivising non-network solutions. • Funding trials – believe this is essential. Transpower's DR program and the learnings which have been obtained wouldn't have occurred without regulatory funding. In addition to supporting networks, funding should also consider the willingness of potential flexibility service providers to invest the time and resources in trial participation. There has been very little activity in this space in NZ, and with the lack of progress on the development of distribution flexibility markets, the business case for investing in trial participation is not strong. Simply (through Contact) has experience developing flexibility services trials with multiple distribution networks, and we appreciate how time consuming the bespoke nature of trials can be – including developing a commercial framework and technical requirements. We believe the EA could assess what funding and trial models have been

successful in other jurisdictions, including ARENA in Australia. We also believe a competitive tender model, where for example, distributors and flexibility service providers can apply jointly for pilot project funding, is more likely to be successful than the previous Commerce Commission approach with Transpower involving simply providing the distributor with an allocation of funds to use at its discretion.

- Distributors proving that they have explored flexibility – we support the options canvassed in the consultation paper. A 'two-tier' regime should be considered with a more fulsome process for network investments above an upper threshold, and a more lightweight process for smaller network investments. We have commented previously on reducing the Transpower threshold for exploring non-network alternatives and there was reluctance on Transpower's part due to the administrative costs of the current major capex non-network process. Non-network processes needed to be developed to be fit for purpose for a range of network investment sizes.
- Standing offer price information – support as a method of lowering the barriers to entry for providing flexibility services. This approach would enable a far simpler and less costly route to market for a flexibility services provider than RFI and RFP processes.
- Enabling multiple trading relationships – unclear whether this will support the development of competitive flexibility markets. Simply is currently contracting demand response with customers supplied by other retailers, however our ability to utilise the demand response for wholesale market purposes is limited. Whilst multiple trading relationships is an option for enabling greater utilisation of demand response, it is reliant on potential flexibility service providers needing to become retailers (which may very materially restrict market entry), and the customer being willing to separately contract parts of its electricity supply, including on different timeframes (noting that a flexibility services provider might need a longer timeframe to justify electrical and automation work to setup participation in the program, however hedging may not be available for the flexibility service provider for that timeframe and the customer may be unwilling to lock into an electricity contract for that timeframe). An alternative is the wholesale demand response mechanism which has been developed in Australia, which we believe has lower barriers to entry for flexibility service providers, and is more likely to result in a competitive market for wholesale demand response, which in turn can support the development of additional flexibility sources that the grid will need to integrate more intermittent renewables and transition towards 100% renewables.
- Assessing cost allocation and related party transaction rules – we have put extensive effort into multiple Commerce Commission consultations over a period of years, and seen little change in a regulatory regime which incentives traditional network investment or network owned non-network alternatives, at the expense of engaging with the potential third party service providers. The Commission's approach has been to wait for clear evidence of a market failure before considering any change, rather than take a forward looking view of the market settings required to facilitate the development of competitive flexibility services markets and support a low emissions economy. As a result, we don't believe further Commerce Commission processes are likely to result in material change.
- Restrictions on distributors owning and operating DER – structural changes should be considered if other incentives have failed to spur the development of flexibility services markets, although we note that preventing distributors from owning and operating DER will not in itself necessarily result in distributors engaging with third parties on potential flexibility services. An important issue is distributors ongoing investment into existing DER and control systems – for example we have commented extensively in past submissions on hot water ripple control. It is difficult to see competitive markets developing in an environment where networks can continue to invest in and maintain the existing ripple arrangements, including the structure of Use of System Agreements and controlled load

tariffs to obtain direct control of the DER, which is then utilised by the distributor not only for network load management but also for generating additional revenue in the reserves and Transpower demand response markets. Similarly, it is difficult to see competitive markets developing when distributors can continue to invest in 'DERMS' systems as well as 'Flexibility management systems', as per Figure 9 (noting we support the flexibility markets model developed by IPAG) in the consultation document. By investing in a DERMS system the distributor is engaging with consumers and controlling the flexibility resources directly, which results in the network value only being obtainable by consumers connecting to the distributors DERMS system, prevents the development of a competitive flexibility traders market, and likely results in the flexibility use of the resources being restricted or biased towards the distributors own requirements.
Q.13 What options would encourage competitive procurement processes for flexibility services?
Please see response above to Q12
Q.14 Have you experienced difficulties with negotiating operating agreements for flexibility services?
The difficulties we have experienced developing distributor trials do not relate to the operating agreement as much as the structure of the network support itself. In our experience 95% of the work is in developing up bespoke arrangements for what DERs are going to be used, what DERMS is going to be used by the flexibility trader, what flexibility management system is going to be used by the distributor, what requirements does the distributor have on how the DERMS connects to the DER, how will the flexibility management system integrate with the DERMS etc. For example, the distributor may have a requirement that they need to be able to signal the DER directly from their ripple control system without any reliance on the flexibility traders DERMS. Ideally there would be a standardised, modern approach which distributor flexibility management systems use to manage flexibility markets. The Transpower demand response program provides an example. In our view standardising the underlying demand response market / approach is the most important element, and achieving that will support and enable the standardisation of operating agreements.
Q.15 Are the transaction costs of developing contracts a barrier to entering the market for flexibility services?
Where we have put operating agreements in place for Transpower and distributor trials, and whilst the agreement itself has not been a barrier, the bespoke nature and mechanics of each agreement, including the commercial framework, have necessitated lengthy discussions, numerous personnel on both sides and legal team involvement. It is likely that for non-trial agreements the transaction costs would have been considerably higher, with more focus on, for example, penalty regimes for non-performance. Standardising the types of services that can be offered, the nature of connection and creating model contracts would significantly reduce barriers to entry.
Q.16 Would an operating agreement help lower transaction costs and level negotiating positions?
Yes, absolutely a standardised agreement would help lower transaction costs.
Q.17 What kind of operating agreement would address the issues described in this chapter?
We support the approach in the consultation paper of developing a 'DDA style' agreement which parties can opt into. The Transpower demand response program agreement provides a reasonable starting point for the development of a 'DDA style agreement'. If the 'DDA style' approach doesn't have the intended outcomes, then a mandatory set of terms that parties must use could be considered (keeping in mind that ultimately the distributor is comparing the non-network alternative to traditional network investment, and any onerous non-negotiable terms from the distributor's perspective will make it less likely the non-network alternative will proceed).
Q.18 What are distributors doing to ensure their network can efficiently and effectively manage the transformation of networks?
No comment.

Q.19 How are distributors currently working together to achieve better outcomes for consumers?
No comment.
Q.20 Could more coordination between distributors improve the efficiency of distribution?
As a starting point, we support the 'medium issue' options identified in the consultation paper, including clarifying the roles of a distribution network operator (DNO) and a distribution system operator (DSO), creating an industry body to body promote coordination of DSOs, and encouraging joint-venture arrangements. We believe this guidance will make it more likely distributors develop the capability to develop smarter, flexible networks, including a standardised approach to the development and operation of flexibility markets. We also believe a review into the merits of a single DSO approach would be a worthwhile undertaking. In addition to supporting distribution efficiency, a DSO model could increase the visibility of DERs across the grid and ideally result in DSO market structures being put in place which enable DER utilisation to be optimised not only for DSO markets, but also for adjacent markets, enabling greater flexibility and value as New Zealand moves toward a greater penetration of renewables.

We would be happy to discuss our submission. Please contact rob.prest@simplyenergy.co.nz.

Yours sincerely,

DocuSigned by:
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Andy Sibley
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Simply Energy