

8 December 2020

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Submission on the Proposed Levy-Funded Appropriations for FY2021/22

Introduction

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper on the proposed *2021/22 Levy-funded appropriations*, published on 10 November 2020.
2. Vector broadly agrees with the Authority's five interrelated strategic ambitions for the electricity sector that were developed in consultation with industry participants during the Authority's 2020 Strategy Refresh, and which now underpin its proposed initiatives for FY2021/22:
 - a. consumer centricity to guide regulation and the industry;
 - b. low-emissions energy to electrify the economy;
 - c. trust and confidence in the industry;
 - d. thriving competition delivering better outcomes for New Zealanders; and
 - e. innovation flourishing.
3. We believe the above ambitions cannot be delivered by overly prescriptive regulation, which is 'fragile by design' and limits future optionality. Following what has been an extraordinarily challenging period – when COVID-19 redefined what is normal – it has become even more imperative to adopt practical, flexible and innovative regulatory approaches that promote energy system and consumer resilience (i.e. energy affordability) in an increasingly renewable and data-rich world.
4. As a leading technology solutions company, Vector believes innovative technology solutions that promote energy efficiency and renewable energy play a critical role in improving resilience and facilitating the electricity sector's transition into a digital and low-emissions future.
5. We set out below our responses to the questions in the consultation paper.

Responses to selected consultation questions

Q1. What kinds of engagement have you or your organisation had with the Authority?

6. We have had various kinds of engagement with the Authority. These include:
 - a. written submissions on Authority consultation papers;
 - b. participation in face-to-face and Zoom workshops and forums hosted by the Authority;
 - c. participation in Real-Time Project (RTP) briefings via Cognise;

- d. discussion on specific topics with Authority staff through telephone calls or emails, e.g. to clarify our views or recommendations in our submissions;
- e. feedback on draft reports issued by Authority-commissioned auditors for compliance purposes; and
- f. informal conversations with Authority managers and staff on a range of policy, regulatory and industry issues during forums or events hosted by the Authority or industry groups.

Q2. The Authority is proposing that the operational appropriation for Electricity Industry Governance and Market Operations in 2021/22 is \$78.157 million. Note that the \$3.221 million funding for RTP per year for 2021/22 and outyears was approved in February 2019 and we are not seeking feedback on RTP in this process. Do you support the Authority's proposal for funding of \$78.157 million?

7. We note the relatively flat year-on-year levy profile from FY2020-2021 to FY2021-2022 after accounting for inflation. The lack of more detailed information in the consultation paper regarding appropriations for specific key projects, however, does not put us in a position to provide informed feedback on the prioritisation of projects for FY2021-2022.
8. We encourage the Authority to adopt a targeted work programme focusing on initiatives that deliver tangible consumer benefits in a timely manner, and/or:
 - a. facilitate the expansion and creation of energy markets and increase consumers' participation in those markets;
 - b. promote innovation and competition that benefit consumers; and
 - c. help ensure the industry's transition to a digital and low-emissions future without imposing onerous costs on consumers.

Initiatives addressing EPR recommendations

9. Vector generally supports the final recommendations of the Electricity Price Review (EPR) Panel which are in various stages of implementation by the Authority. These include:
 - a. prohibiting saves and win-backs (Recommendation C5 – short term);
 - b. improving the functioning of the hedge market by introducing mandatory market making obligations unless the sector develops an effective incentive-based scheme (Recommendation D2 – medium term);
 - c. improving the availability of wholesale market information (Recommendation D1 – medium term) and making generator-retailers release information about the profitability of their retailing activities (Recommendation D3 – longer term); and
 - d. ensuring distributors have access to smart meter data on reasonable terms (Recommendation E3 – medium term).

Transparency of wholesale market information

10. As indicated above (9.c), we generally support the Authority's work on improving wholesale market information disclosure, which is initially focused on the disclosure of thermal fuel information. This is particularly the case for information on planned and unplanned gas production and storage outages. Greater transparency in the wholesale electricity market would help address concerns around information asymmetry, promoting transparency and efficiency in this market.
11. We encourage the Authority to coordinate closely with Gas Industry Co on the latter's development of an information disclosure regime for the wholesale gas sector. This would ensure alignment across the electricity and gas sectors, avoiding gaps and duplication and unnecessary costs for participants in both sectors and ultimately, energy consumers.

12. We support the publication of links to thermal fuel information on the Authority's website and the voluntary disclosure by gas producers and storage owner of outage information on Gas Industry Co's website while information disclosure arrangements are being developed by both regulators.

Additional consumer choices of electricity services

13. We seek greater clarity on the timeframes of the Authority's project promoting *additional consumer choices of electricity services* (ACCES Project), including the proposed ACCES trial to enable multiple trading relationships. The ACCES Project is intended to give consumers greater choice in how, and who, they interact with in the electricity industry. We agree, in principle, with the Project's envisaged outcome where "consumers are increasingly able to, and are, obtaining services (including consumption, generation, demand response and other third-party provider services) from multiple suppliers".
14. In our view, the implementation of the ACCES Project cannot be divorced from the ongoing consideration by the Ministry of Business, Innovation & Employment (MBIE) of the introduction of a Consumer Data Right (CDR) in New Zealand.
15. Vector supports the introduction of a CDR in New Zealand. We support a CDR that makes it easier for consumers to share their data with businesses and third parties that they trust, so that new and innovative services that benefit them can be developed. A CDR creates new options for consumers and increases their awareness of available offerings, incentivising them to more actively engage in energy markets. It provides consumers with greater choice and control over how they use their data and with whom they share it with.
16. We agree with MBIE's preferred 'sectoral designation' approach for introducing a CDR in New Zealand, akin to the approach adopted in Australia's banking sector this year (2020) and subsequently, in Australia's energy and telecommunications sectors. The widespread deployment of smart electricity meters, and recent deployment of smart gas meters, in New Zealand make the energy sector well placed to be at the forefront of introducing a CDR in the country and delivering its benefits to consumers in a timely manner.
17. In our view, industry-led approaches to CDR would be appropriate for the New Zealand energy sector, rather than the 'gateway model' adopted for Australia's energy CDR. A new centralised system operated by a regulator or market operator would be very costly to build and maintain and would therefore not be in consumers' long-term interest.
18. One of the most significant costs data holders under a CDR are expected to incur is the cost of verifying who the customer is (e.g. 'Is this a real person?'). We encourage the Authority to work closely with MBIE as it progresses its work on CDR, so that options can be identified that would deliver the benefits of a CDR but would not impose onerous costs on CDR participants and energy consumers.

Open Networks Project

19. We encourage the Authority to closely coordinate with the Smart Technology Working Group (STWG) of the Electricity Networks Association (ENA) in relation to the Authority's Open Networks project as the ENA updates and progresses its *Network Transformation Roadmap*. This is particularly relevant in relation to the STWG's ongoing work on low-voltage network monitoring and visibility, and connection standards for distributed energy resources (DER), and how these can reduce inefficient barriers to greater DER uptake. Enabling networks to efficiently integrate DER to the grid supports the delivery of innovative services (e.g. demand flexibility) and long-term decarbonisation.

Spotlight on contestable services

20. We seek clarity around the timeframes and future of the *Spotlight on emerging contestable services* project which the Authority intended to undertake jointly with the Commerce Commission (the Commission). We understand this project has been ‘paused’ while the Commission focused on the price-quality resets of electricity distributors and Transpower. The project’s terms of reference state that the project “will focus on how electricity distributors and other providers are increasingly participating in new markets that use emerging technologies, such as distributed energy services”. We seek clarity whether this project will be reinstated, or a similar project will be undertaken, in the coming financial year following the Commission’s price-quality resets.
21. In connection with the *Spotlight* project, we encourage the Authority to explore “regulatory sandbox arrangements” developed in the UK or being developed in Australia and in other overseas jurisdictions. Sandbox arrangements allow industry participants to test innovative concepts under ‘relaxed regulatory requirements’ on a time-limited basis.

Increasing retail price change transparency

22. We note the Authority’s intention to review how electricity network price changes are passed through to the retail market. We emphasise the importance of price decreases from regulatory resets being passed through to consumers in: 1) ensuring energy affordability, 2) enabling consumers to make more informed decisions (enabled by more transparent pricing), e.g. whether to install a battery or solar PV, and 3) providing consumers greater control over their electricity expenditure, instilling confidence and promoting participation in energy markets, e.g. through demand response programmes.

Low fixed charge tariff

23. We agree with many other industry participants that the *Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004* should be abolished. There is now widespread recognition that the low fixed charge tariff is not working, creating market distortions that do not necessarily target those most in need. The removal of these Regulations is a key element in achieving distribution pricing reform objectives.

Compliance - use of guidelines

24. Consistent with our preference for flexible and practical regulatory approaches, we prefer that the Authority optimise the use of guidelines prior to considering the introduction of new (or amendment of existing) provisions in the *Electricity Industry Participation Code* (the Code), or in clarifying or testing compliance with Code requirements. This would allow participants to learn from best practice and from each other’s approaches, and avoid stifling innovation. Such was the approach used in the following work streams:
 - a. the use of a ‘layered approach’ in the development of the *Consumer Care Guidelines*, which promotes flexibility and only provides prescriptive guidance when it is needed to offer more protection and minimise harm in a ‘consumer’s journey’. In addition, the introduction of a single set of *Consumer Care Guidelines* to replace the three existing sets of guidelines relating to medically dependent and vulnerable consumers will help avoid confusion that could arise from multiple guideline documents;
 - b. revising the *Wholesale Market Information Disclosure Guidelines* (WMID Guidelines) to clarify participants’ obligations to disclose information before the introduction of any Code amendments, and reflect changes to market operations since the WMID Guidelines were published; and

- c. the use of multiple visual examples in the *Guidelines for improving consumer awareness of Utilities Disputes and Powerswitch*. The examples are intended to support participants rather than replace their ability to innovate to meet the wording and intent of the relevant Code amendments in a way not covered by the guidelines.

Omnibus Code review

25. The annual omnibus review of the Code considers non-controversial or technical improvements to make Code provisions clearer and consistent across various parts/sections. We suggest and support a move from the current annual review to a review every six months. This would assist in making the Code more responsive to, and reflective of, evolving practices driven by new technologies and rising consumer expectations.
26. We further suggest that the omnibus Code review process also capture proposed incremental changes or technical improvements to existing guidelines proposed by stakeholders or the Authority itself. It is not unreasonable to expect participants to identify new ways of potentially complying with existing requirements in the Code or guidelines. While not part of the Code, guidelines support the implementation of specific Code requirements. A regular refresh of existing guidelines through this process (e.g. annually) will help ensure the guidelines remain 'up to date'. This would also avoid the Authority having to undertake separate/standalone consultation processes to consider potential incremental changes or improvements to existing guidelines.

Advisory groups

27. We consider it appropriate for the Authority to 'review and refresh' its advisory groups – the Innovation and Participation Advisory Group and the Market Development Advisory Group – three years into their existence, even if informally. For example, the Authority could assess:
 - a. whether the advisory groups are meeting the Authority's and stakeholders' expectations, as set out in their terms of reference;
 - b. the extent to which advice and inputs from the advisory groups have influenced Authority Board decisions and Authority initiatives; and
 - c. whether the composition of the advisory groups needs to be refreshed to reflect new and emerging developments in government priorities and the energy sector, e.g. future members could include Open Data experts and electric vehicle/Transport-as-a-Service (TaaS) providers.

Q3. The Authority is proposing that the contingent appropriation for Managing the Security of New Zealand's Electricity Supply remains unchanged for 2021/22. Do you support the Authority's proposal for maintaining this contingent funding at its current level?

28. We have no issue with keeping this appropriation that can be incurred by the System Operator unchanged for FY2021/22. We note its contingent nature and that no expenditure has been incurred against this appropriation to date.
29. More broadly, we suggest that the Authority, in considering policy and regulatory issues affecting security of supply, cast a broader net to capture issues that have an increasing impact on security of supply. These would include, among others:
 - a. the impacts of COVID-19, e.g. changes in electricity demand patterns driven by the economic slowdown and more people working from home;
 - b. improving industry resilience and ensuring energy affordability during periods of crisis;
 - c. the integration of increasing amounts of DER into the grid; and
 - d. cyber security risks.

30. One way of ensuring the above areas are captured in ongoing security of supply discussions is to ensure the Security and Reliability Council include members who have strategic expertise on any of the above areas or has access to such expertise.

Concluding comments

31. We are happy to discuss any aspects of our submission with the Authority. Please contact Luz Rose (Senior Regulatory Partner) at Luz.Rose@vector.co.nz or 04 803 9051 in the first instance.
32. No part of this submission is confidential, and we are happy for the Authority to publish it in its entirety.

Yours sincerely
For and on behalf of Vector Limited



Richard Sharp
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