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Submission on the EA's Proposed levy-funded appropriations 2024/25 – Consultation Paper

Introduction

1. This is Vector Limited's (Vector) submission on the Electricity Authority's (the Authority) consultation paper, *Relieving pressure to deliver regulatory reform at pace: Proposed levy-funded appropriations 2024/25* (the Consultation Paper), published on 19 December 2023.
2. We are highly conscious of ensuring power remains as affordable as possible through the transition, in the face of increased investment in both generation and network infrastructure. We are mindful that an uplift in the Authority's appropriation creates a certain increase in current consumer costs, traded off against uncertain future reductions.
3. However, we agree the Authority needs to do more, faster, and have often made this point. We therefore support the Authority's Option 2 – "relieving pressures". The Authority framing of the levy in terms of $2.76 per household per year, on average, is useful. It is not hard to envisage that an effective Authority can deliver long-term benefits to consumers of many times that number.
4. We agree that the additional objective (s15) and function (s16) to protect the interests of consumers cannot be achieved without dedicated resourcing and funding.
5. The Authority needs to adequately fund its priority workstreams – in particular the integration and enablement of distributed energy resources in distribution networks, and the recommendations from MDAG. Both require significant focus and attention for the next three years, at least – an expansion from the aspects that comprise the current work programme.
6. We offer comments on particular areas of interest in the remainder of this letter, followed by our answers to the specific consultation questions posed.

Authority's monitoring function needs to be significantly enhanced

7. Monitoring, reporting and compliance all require concerted focus. As we have said in several previous submissions[1], there is much the Authority can pick up from regulators of parallel industries in New Zealand, and of electricity markets globally.
8. Just as we and other participants are intending to leverage fully the capability offered by new technology, the Authority also needs to build in this area. No doubt, market participants are

[1] See, for example, our submission on the Authority's appropriation in November 2022. Available online at: https://blob-static.vector.co.nz/blob/vector/media/vector-2022/vector-submission-ea-2023-24-levy-funded-appropriations.pdf

improving the efficiency of their market offering strategies through new technology, and the Authority will need to invest heavily to stay one step ahead.

9. We support the recommendations of MDAG in this area – if the wholesale market is to play the key role anticipated for it through the transition, maintaining reliability at least cost, then public confidence in its ability to play that role needs to increase significantly. At this point, trust and confidence is particularly low.

10. In particular, we and many other participants have raised concerns for some time about the delta between forward prices on the ASX and long-run investment costs. Following the Electricity Price Review, the Authority was tasked (in recommendation D4) with analysing and regularly reporting on the comparison between these two metrics, but we have yet to see this being reported publicly[2]. If it is being done, it needs to be given a much higher profile and be made visible to increase understanding and inspire confidence.

11. In the absence of an authoritative voice, competing explanations will fill the vacuum.

12. Further, the Commerce Commission's decision late in 2023 to decline to investigate competition concerns in the wholesale market increases the onus on the Authority to do so conclusively. This absolutely needs to be prioritised and resourced.

Service providers' focus needs to be on continuous improvement

13. It was helpful for the Authority to note that 70% of the levy currently goes to the Authority's service providers (SPs), like the system operator, NZX and Jade, and that these contract payments are increasing by $7.6m, largely due to inflationary pressure.

14. Because of this, there needs to be increasing pressure on the efficiency of SPs. While we appreciate their contract prices will increase with inflation, unless their roles are expanding, we would expect efficiency improvements to mean their real costs were *falling*, rather than increasing.

15. We also think it important the Authority brings more transparency to the level of competition these parties are subject to, the service levels they are required to meet, and how they are performing relative to those levels. How these contracts are negotiated is particularly opaque. We are therefore encouraged by the increased emphasis the Authority is placing on commercial management in its new structure.

16. As part of this, we think a useful addition to the Authority's monitoring role would be to gauge annually from stakeholders their experience in working with these SPs, how they are performing, and how stakeholders think they could improve their performance. This should be a key part of the SPs' performance assessment. Stakeholders could assist in the development of the SPs' key performance indicators, as well as provide input into how well they are meeting expectations.

17. Because Transpower's role as system operator is enshrined in section 8 of the Electricity Industry Act, we think extra protections need to be in place to ensure it is constantly delivering the role it needs to, and is subject to the same pressures it would be if the role were actually contestable, as the roles of the other SPs are.

[2] We note the recent publication of the Concept survey into generation investment, available online at https://www.ea.govt.nz/documents/4414/Generation_Investment_Survey_-_2023_update.pdf, which demonstrated this differential on slide 6 but did little to explain why the differential exists or whether it is acceptable.

Key aspects of the work programme need to be accelerated

18. We strongly agree with the prioritisation of the integration and enablement of distributed energy resources. As the Authority notes in paragraph 2.19:

    "Technological change means more solar panels, electric vehicles and batteries will be connected, creating both new challenges and opportunities for distribution networks. These issues are exacerbated by the need to accommodate bi-directional power flows arising from the new technology and to address the system stability issues that will arise."

19. However, we think the Authority needs to do more in this space, faster.
20. We have noted in several recent submissions the risks that "herding" of DER on distribution networks could create, and the sea change that such "diversity destruction" presents for distributors. New settings are required to keep distribution networks safe and secure in these evolving circumstances.
21. Better coordination and more efficient use of DER is an incredible opportunity for Aotearoa New Zealand, as the Authority notes in referencing the CBA Sapere completed in 2021. However, despite this, critical issues relating to safe and secure distribution system operation – especially protocols between participants and the ability of distributors to avoid network emergencies, and manage them if they do occur – are being deprioritised.
22. In the 2024 calendar year, we recommend that the Authority acts with urgency on the feedback we and other EDBs have provided, and the corresponding recommendations of MDAG in this area. We, and our industry colleagues in ENA's *Future Networks Forum* and the FlexForum, are very keen to help progress this area. These are not currently included in the work programme for this area.
23. Related to this, we want to add our support to the Authority's intention to bring non-retailer aggregators into the Code. There is currently an un-level competitive playing field between retailer and non-retailer aggregators. This includes, we assume, that aggregators are not obliged to pay the Authority's levy.
24. We also highly encourage the Authority to address all the recommendations in MDAG's final report, with urgency. As with any policy processes, these will likely take longer than MDAG anticipated, so the sooner they can be kicked off, the better.

Increased coordination between regulators is imperative

25. Finally, we reiterate a common theme from many of our previous submissions, that we expect to see evidence of much greater levels of coordination between New Zealand's three energy regulators, and with the other two members of the Council of Energy Regulators.
26. As we understand it, New Zealand's regulatory arrangements, and the split of responsibilities between the parties, is globally unique, and is basically a quirk of the way the various arrangements have evolved over time.
27. This makes the need for coordination all the more imperative – both on the specific workstreams that cut across multiple jurisdictions and statutory objectives, and in how the sector is engaged with. There needs to be more transparency of how this is occurring, and opportunity to feedback on how well (or not) this is occurring.
28. From our perspective, this will be particularly critical in 2024 as the Authority examines the efficiency of capital contributions in connection charges, at the same time as (or potentially after) the Commerce Commission determines the investment allowances for EDBs in DPP4.
29. The two decisions are interminably and inextricably linked, and one cannot be considered in isolation of the other – not to mention EDBs' ability to raise the funding to pay for any investment that may be required.

Responses to consultation questions

Q1. Do you support the Authority's proposal for a permanent baseline increase toits Electricity Industry Governance and Market Operations appropriation of $14.2 million for 2024/25, bringing the total appropriation to $115.0 million?

Yes.

Q2. Do you support the Authority's proposal for maintaining the contingent appropriation for Managing the Security of New Zealand's Electricity Supply at its current level of $6.0 million over five years?

Yes. There is no case at this point for increasing this contingent appropriation.

Q3. Do you support the Authority's proposal for maintaining the contingent appropriation for the Electricity Litigation Fund for 2024/25 and outyears at $1.5 million?

Yes. There is no case at this point for increasing this contingent appropriation.

Q4. Do you have any comments on the Authority's proposed funding 2024/25?

No further comments.

Q5. Do you have any comments on the Authority's vision and intended outcomes?

The addition of the vision one-pager, and its explicit link to the work programme, is great. These artefacts are particularly useful.

On the one-pager, we have a few minor points of feedback for the Authority to consider:

- Under the *Accessibility* heading, consider adding reference to flexibility, and consumers' ability to benefit from the flexibility in their distributed resources – the concept of an "energy supplier" may soon become dated
- We would encourage the Authority to reconsider use of the word "sustainable", in favour of "low-emissions". Sustainability can mean different things to different people. Perhaps there could be direct reference to the legislated 2050 emissions targets instead.
- Affordability, as a concept, is difficult to measure, and is also relative. The Authority and its regulation can certainly influence the *cost* of electricity, through ensuring it is delivered as efficiently as possible, but it cannot influence consumers' level of income to *afford* that electricity. The Authority can, however, have some influence on income levels at a policy level, including to recommend changes to (for example) the targeting of the Winter Energy Payment.
- The terms "energy" and "electricity" seem to be used interchangeably, in parts. This may well be deliberate, but the Authority needs to be clear in its reasoning in using both.
- Consider using "flexibility products" or "flexibility solutions" rather than "flexibility markets" in the middle box. That would appear to fit the medium-term outcome better. Consider adding in reference to the "availability" of these products as well.
- We want to encourage the <u>right</u> investment in electricity generation – right technology, location and timing. That's what accurate market price signals should get us.
- We want consumers to have access to the energy <u>solutions</u> they need – this could involve remote power systems, for example.

Q6. Do you have any comments on the Authority's indicative work programme for 2024/25?

As noted above, we think there are aspects of the distribution settings workstream which overlap with future system operation, and MDAG's recommendations, but are not currently being worked on. These need to be urgently prioritised.

Concluding comments

30. We are happy to discuss any aspects of this submission with the Authority. Please contact me in the first instance, on [redacted]

31. No part of this submission is confidential, and we are happy for the Authority to publish it in its entirety.

Yours sincerely

Dr James Tipping
GM Market Strategy and Regulation