ENERGY TRUSTS OF NEW ZEALAND INC.

P O Box 109626
Newmarket
Auckland 1149
Phone: (09) 978 7673
www.etnz.org.nz

11 July 2017

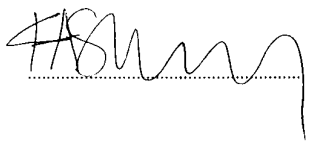
submissions@ea.govt.nz

Enabling Mass Participation Issues Paper

Our submission is attached, using the template provided.

ETNZ - The Energy Trusts Association - represents the Trust owners of electricity distribution businesses throughout New Zealand, the largest of which is Entrust and smallest of which is the Buller Electric Power Trust. The majority of the Trustees of these energy trusts are elected by electricity consumers who are the beneficiaries of the Trusts.

As the organisation representing consumer and community owners of EDBs, ETNZ has both an asset owner and a consumer perspective in addressing this topic.



Karen Sherry
Chair

Submitter	Energy Trusts of New Zealand Inc. (ETNZ)

Question		Comment
Q1.	What is your view of the potential competition, reliability and efficiency benefits of more participation?	More participation is almost certain to lead to improved competition and, ideally, efficiency benefits. However, especially over the transitional period (which could be as long as 10 years or more) it could also bring reliability challenges due to problems integrating new technologies, increased potential for risk taking by inexperienced new entrants, increasing proportions of intermittent generation, and misjudgements on water storage and other back-up issues. The potential for efficiency gains to be reduced due to regulatory misjudgements also needs to be recognised. Inevitably, too, imprudent investments will occur as technologies compete or become obsolete, and as established participants struggle to maintain their market positions. This is not necessarily a problem and should be seen as a normal market process.
Q2.	What is your view of the opportunities to promote competition and more participation in the electricity industry?	Healthy mass participation would best be promoted by minimising the rigidities and uncertainties that would result from more heavy handed regulatory requirements. It would also be helpful for regulators to recognise and acknowledge that the most useful market oversight would be based on correcting any failures or abuses when and if these occur, rather than on attempting to second guess and preempt some of the impacts of a rapidly evolving market.
Q3.	What other issues might inhibit efficient mass participation? Please provide your reasons.	Current energy market structures that tilt the playingfield against new downstream entrants should also be reviewed, recognising that much of the established market was contructed in the 1990s, well

Question	Comment
	before the impacts of today's emerging technologies could be considered. An example is the practice of charging offtake loads rather than injection loads for transmission and for elements of the energy losses occuring from transmission, which clearly reduces the locational advantages that parties with domestic solar surpluses or surplus locally stored energy should enjoy. Current proposals to remove the scope for avoiding transmission costs (the removal of ACOT provisions) should also be reviewed for this reason. The fact that regulatory rigidities mean that avoided costs are passed to other Transpower customers should be viewed as a failure needing correction rather than as an entrenched requirement to be accommodated. Alternatively, if the costs of transmission were met by the remote suppliers who require the grid to compete with local options then they, too, would have an incentive to look for other mechanisms for competing in various markets. Another established practice that could be reviewed is the complex nodal pricing system. This is based on signals derived from grid energy flows, which will become less significant as localised energy and peak avoidance options emerge. Essentially, nodal pricing provides local investors and energy users with an illusiory signal that falls away sharply if they respond to it because each nodal price is set by the most expensive electrons reaching the relevant GXP. A local response to a high nodal price simply reduces that nodal price, meaning that the signal may be of value to remote generators but is not designed to empower local or mass market decisions.
Q4. What is your view of the opportunities for network	In general networks look for the most cost-effective options where alternatives are

Question		Comment
	businesses to obtain external help to provide aspects of the network service using competition or market mechanisms?	available. A classic example has been Vector's use of Northpower Contracting and other service providers, in place of the large in-house service facility operated by its precursors. In smaller, usually remote centres, networks may put reliability ahead of cost-effectiveness, recognising that the cost of lost load to consumers is very much higher tha any likely price gain they might achieve by, for example, relying on a service provider with no signiificant immediate/emergency capability. Overall, there is a strong level of competition among the various network service operators, as evidenced by the relative growth of some and the exiting of others. We have no reason to believe that the services market is failing network companies.
Q5.	What do you think are the main challenges to be dealt with to increase the use of competition in supplying network services? What are your reasons?	The only signiificant challenge that network companies face in obtaining/utilising network services is the rigidity caused by regulatory uncertainty. The current regulator focus on reviewing the scope of electricity distributors' activities creates uncertainties about the value of service assets, about the value of forming joint ventures or partnerships to invest in new technologies such as batteries, and so forth.
Q6. and Q7.	What is your view on whether open access is required and what would be the elements for an effective open access framework? How effective are the existing arrangements for open access? What are the problems?	As far as we are aware the regulations in place, along with normal business pressures, provide satisfactory open access to the great bulk of energy market participants requiring access to networks. We recognise that traditional access arrangements developed when power flows were almost entirely from GXPs into networks, and that the regime now emerging to accommodate e.g. injections from local solar is still evolving. The current distribution pricing work being

Question		Comment
		undertaken by ENA, in association with retailers and others, addresses key issues that need to be addressed in this transition, and should be supported by regulators.
Q8.	What type of distributor behaviours and outcomes should the Authority focus on to understand whether changes are required to support open access?	The Authority should investigate complaints about access if these occur, and consult accordingly. It should not attempt to out-guess a rapidly evolving market by imposing new restrictions ahead of any market failures emerging. The EA's comment that "*a distributor could discourage competition in the retail market by imposing contract terms that shift risks and costs to retailers on its network*" [1] is a misleading simplification. Shifting contractual risks and costs in this way would be an economically efficient outcome provided that the increased risks/costs exposure reflected provisions such as changes in back-up line capacity (e.g. for normally energy self-sufficient households). The concept of one-size-fits-all distribution contracts stifles the ability of networks to meet the rapidly emerging (and unpredictable) demands of a mass participation market.
Q9.	What changes to existing arrangements might be required to enable peer-to-peer electricity exchange?	As explained in more detail in our response to Q3, clear benefits from avoiding transmission costs by trading in power flowing just through networks would stimulate peer-to-peer trading. Similarly, reviewing the transitory price signals created by nodal pricing would be likely to help.
Q10.	What are the costs and the benefits of enabling peer-to-peer electricity exchange?	Any net costs are most likely to stem from impudent investment, where the economies of scale may not exist to justify up-front investment by parties with their own generation in 2-way metering, protective switchgear, storage, market access arrangements, etc.

[1] Page 3 of the consultation paper.

Question		Comment
		Pricing of the energy involved is a key element in establishing costs and benefits, and here the value of storage and other arrangements to access peak pricing periods will be important. Again, maintaining an ACOT incentive along with peak transmission price signals will also be important (and current proposals to water these two factors down are a concern).
Q11.	What is your view of the possibility for, and impact of, any current or future blurring of participant type? What are your reasons?	New Zealand's electricity supply system evolved through to the Bradford reforms with no major issues resulting from the blurring of roles, although the dominance of the state-owned genaration/transmission conglomerate was at best a necessary evil for much of that period. The forced separation of line and energy activities in 1998/9 should, in our view, be regarded as a transitional mechanism that has outlived its usefulness, with a broad spectrum of market participants now in established positions, and with the Commerce Commission well placed to identify and correct any anti-competitive bahaviour. New technologies offer exciting gains for New Zealand, and potentially huge improvements in the way we benefit from electricity. If there is competition among the various segments of the electricity industry in bringing those benefits to customers then this will be much more useful than again ring-fencing the roles of distributors and others. Ultimately, it seems certain that the blurring of technologies rather than the blurring of participants will be the dominant feature here, with batteries, meters and communications systems becoming increasingly valuable to each type of participant, and the relevant technologies becoming intreasingly entangled.

Question		Comment
Q12.	What types of participation are or might be prevented because the party is not recognised as a participant? What are the potential impacts?	No further comment on this.
Q13.	What challenges might new forms of generation, such as virtual power plants, or small and dispersed generators, face in entering the market?	See our comments on transmission pricing, ACOT and nodal pricing above.
and		
Q14.	What changes might be required to the rule book to facilitate the emergence of virtual power plants or demand response?	
Q15.	Would the functioning of the market for hedges and PPAs and the availability of finance be improved if there were greater transparency of long-term prices and greater standardisation of terms and conditions for long-term contracts?	We suspect that it would but would like to see an issues paper before we form a view. Greater simplification of these markets, and perhaps the creation of readily available demand-side hedges would be very likely to assist downstream participants