



MAJOR ELECTRICITY USERS' GROUP

11 July 2017

Dr John Rampton
General Manager Market Design
Electricity Authority
By email to submissions@ea.govt.nz

Dear John

Enabling Mass Participation Issues Paper

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Electricity Authority (EA) issues paper "Enabling mass participation in the electricity market - How can we promote innovation and participation?" dated 30 May 2017.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.
3. Responses to questions in the consultation paper follow:

| Question | MEUG comment |
|---|--|
| 1. What is your view of the potential competition, reliability and efficiency benefits of more participation? | Agree changes in technology are and will increasingly affect the demand and supply sides of the electricity sector (ie "mass participation") and if well managed will lead to Competition, Reliability and Efficiency benefits (CRE). By "well managed" we refer to the EA making appropriate changes to the Code or using its market facilitation powers ² ; the sector developing complimentary voluntary protocols, and the Commerce Commission's regulation through Part 4 of the Commerce Act and any changes to primary and secondary legislation developed by MBIE being aligned. ³ MEUG believes the EA should be the lead agency for this work. |

¹ URL <http://www.ea.govt.nz/dmsdocument/22157> at <http://www.ea.govt.nz/development/work-programme/evolving-tech-business/enabling-mass-participation/consultations/#c16454>.

² Per Electricity Industry Act, s.16(1)(f).

³ Primary and secondary legislative changes could include, for example, changes to the low fixed user charge regulations.

| Question | MEUG comment |
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| 2. What is your view of the opportunities to promote competition and more participation in the electricity industry? | Agree that well managed facilitation of mass participation is likely to lead to improvements in competition. |
| 3. What other issues might inhibit efficient mass participation? Please provide your reasons. | <p>We have one other issues to add to the five areas of possible changes to the Code listed in paragraph 3.7 along with the already commenced work listed in paragraphs 2.24 to 2.30.</p> <p>That one issue, following on from the MEUG comment to Q.1 above, is that there needs to be <u>effective</u> co-ordination between the EA and the Commerce Commission, MBIE and the industry (for voluntary initiatives) to ensure alignment.</p> <p>MEUG does not wish to see a repeat of the error in judgement, in the view of MEUG, by the Commerce Commission deciding to change the basis for regulating EDB price paths from weighted-average-price-cap to pure-revenue-cap effective 1 April 2020 and therefore cutting across initiatives by the EA to facilitate early implementation of cost-reflective and service-based EDB pricing.</p> |
| 4. What is your view of the opportunities for network businesses to obtain external help to provide aspects of the network service using competition or market mechanisms? | Agree that well managed facilitation of mass participation is likely to lead to efficiency improvements in supply of network services. |
| 5. 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? | Ensuring contract terms and conditions (T&C's) offered by network service providers, that is Transpower and the 29 EDB, to non-network solution providers, are equivalent to those likely to be set in a workably competitive market (WCM). T&C's cover price and other terms such as length of contract, performance incentives and penalties etc. that as a package make the network service provider indifferent between selecting a build-to-own option and an outsourcing option. ⁴ Without clarity on T&C's and confidence those are equivalent to outcomes expected in a WCM, non-network solution |

⁴ This is not a trivial exercise. MEUG has discussed this, in relation to Transpower's outsourcing, most recently in a cross-submission to the Commerce Commission on the review of the Transpower Capex Input Methodology, 28 June 2017, paragraph 8 to 11, refer <http://www.comcom.govt.nz/dmsdocument/15568>. We have not considered outsourcing for EDB as it relates to Part 4 of the Commerce Act in similar detail.

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| | <p>providers will be:</p> <ul style="list-style-type: none"> hesitant to offer in case, from their perspective, T&C's change to become better;⁵ and hesitant to invest in developing innovative offerings for the future. |
| 6. What is your view on whether open access is required and what would be the elements for an effective open access framework? | Paragraph 5.5 to 5.7 cover the view of MEUG noted in response to Q5 above, on the topic of network service provider contract T&C's as the main challenge for open access. |
| 7. How effective are the existing arrangements for open access? What are the problems? | See comments on Q5 and 6 above. |
| 8. What type of distributor behaviours and outcomes should the Authority focus on to understand whether changes are required to support open access? | See comments on Q5 and 6 above. |
| 9. What changes to existing arrangements might be required to enable peer-to-peer electricity exchange? | - |
| 10. What are the costs and the benefits of enabling peer-to-peer electricity exchange? | One aspect to consider is the allocation of EDB line losses for parties in a P2P exchange and all other parties connected to a network paying for line losses are neither advantaged nor disadvantaged relative to an efficient allocation of line losses. |
| 11. What is your view of the possibility for, and impact of, any current or future blurring of participant type? What are your reasons? | - |
| 12. What types of participation are or might be prevented because the party is not recognised as a participant? What are the potential impacts? | - |

⁵ This is probably a realistic view because T&C's offered by Transpower and EDB at present are likely to be biased in favour of the monopoly because the monopoly can dictate terms.

| Question | MEUG comment |
|---|---|
| 13. What challenges might new forms of generation, such as virtual power plants, or small and dispersed generators, face in entering the market? | - |
| 14. What changes might be required to the rule book to facilitate the emergence of virtual power plants or demand response? | - |
| 15. 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? | <p>It's more likely innovative business models and forms of contracting between suppliers and buyers of wholesale and retail products leveraging off new-technologies will develop absent regulatory templates than the case where a regulator attempts to guess what an optimal new contract form might look like.</p> <p>MEUG's suggested approach is for the EA to wait and see if any true policy design problems arise (as opposed to, for example, speculative problems promoted by a party with their own business model in mind) and that will then enable the EA to define and quantify the problem(s) and analyse the pros and cons of alternative solutions should the need arise.</p> |

4. We look forward to the EA considering this submission.

Yours sincerely



Ralph Matthes
Executive Director