Chairman: Warren McNabb,
warren.mcnabb@altimarloch.com
Secretary: David Inch, david@nzenergy.co.nz

INDEPENDENT ELECTRICITY GENERATORS ASSOCIATION

25 June 2019

Kimberley Foo
Senior Analyst
Commerce Commission
P O Box 2351
Wellington 6140

By email: eacomcomjointproject@comcom.govt.nz

Dear Kimberley,

RE: Spotlight on emerging contestable services – supplementary feedback on issues raised at the workshop on 28 May 2019

The Independent Electricity Generators Association Incorporated (IEGA) appreciated the opportunity to discuss case studies at the workshop and to hear and discuss views from other parts of the sector.[1]

The IEGA's perspective for this project is that current distributed generation provides similar services to that expected from the 'in-vogue' emerging technologies. Any change to the regulatory environment must be level for existing and new distributed energy services from emerging technologies.

Further, our long-held position is that any distributor considering investing in generation or non-network solutions to address network issues must undertake a competitive tender against which it can compare the cost of its own investment with third party provision.

The IEGA continues to support the current thresholds for distributors investing in generation and retail, and the current rules relating to corporate separation and arm's length rules, cost allocation and related party transactions in the absence of any proposals to alter the regulatory regime for the long-term benefit of consumers.

We have focused on distributor's interest in emerging technologies as an alternative investment to traditional network infrastructure investment – a non-network solution. The Part 4 regime requires distributors to consider non-network solutions in its network planning.

Our suggestions following the workshop for the focus of this joint project are:

[1] The Committee has signed off this submission on behalf of members.

- *Valuing reliability:* Reliability is a key focus for distributors. This reflects the current price-quality regulatory regime as well as working to meet their understanding of customers' expectations. Distributors' views about reliability are based on their detailed knowledge of the performance of traditional network assets. Distributors require service guarantees from third party providers – which can be different in each network. We suggest:
  - a standard methodology should be developed for any distributor to use to compare the reliability of traditional network assets with generation or other non-network alternatives.
  - a standard methodology should also be developed to 'value' reliability on the distribution network. There is a value of lost load used in the transmission and security of supply parts of the regulatory system under the Electricity Authority's jurisdiction. It would be interesting to consider if this VOLL is comparable with the penalties imposed on distributors for breaches of Part 4 of the Commerce Act or the value of reliability is different for the distribution sector.

  These methodologies would assist third party providers of non-network solutions as well as distributors (in dealing with third party providers or considering their own investment in emerging technologies).

- *Standard agreements for contracting non-network services:* We suggest work be undertaken on designing standard agreements for contracting non-distribution services, thus reducing transaction costs for both distributors and service providers. This standard agreement should also incentivise and facilitate gaining the most value from the potential range of services from existing and new distributed energy resources.

- *Capex versus opex:* The project should investigate if the current Part 4 regime favours capex (investment in traditional network infrastructure) or opex (contracting with a third party for non-network solutions from emerging technologies)? Further some network solutions can be shifted within a network to reflect changing demand profiles. Are non-network solutions from existing and emerging technologies at a competitive disadvantage compared with traditional network infrastructure investment?

- *Lumpy network investment can make investment in emerging technologies redundant and treatment of stranded assets:* Non-network solutions may be sufficient to meet network demand for a period but then a lumpy increase in network capacity, reflecting economies of scale, may be required. This lumpy network investment has the effect from a distributor's perspective of making the investment in emerging technologies redundant. The project should consider the following:
  - How is the investor in this technology going to be compensated during the useful life of that investment?
  - Currently stranded assets remain in a distributor's RAB – is this appropriate when technology is changing quickly and competing third parties would have to write-off these investments?

- *Distributors' WACC compared with the cost of funding in the competitive market:* Distributors' rate of return is regulated. It is lower, reflecting the regulated ability to recover costs, than that required by an organisation operating in a competitive market (reflecting the potential range of returns on new and existing products and services). How is a third party going to be price competitive against an investment in the same product/service by a distributor with a lower WACC?

- *Seed investment versus cross-subsidised investment:* This is an interesting conundrum. Who is best placed to invest to test and evaluate the value of an emerging technology in providing a network service? Would a third party be prepared to invest? Is it possible to write a contract between a third party service provider and the distributor? How would the parties work out the payment for the service when the distributor purchasing the service has not used the service before? Is requiring distributors to buy emerging technology services from third parties going to slow down the uptake of these technologies? What is the risk appetite of distributors? Is a risk sharing model achievable or are distributors naturally too conservative reflecting their focus on reliability? Could the innovation fund proposed in the Electricity Price Review Panel's Options report be the source of ring-fenced funding available to distributors and any other party for evaluating new technologies that provide network services? Can undertaking trials be treated appropriately in the regulatory regime to incentivise innovation?

- *The potential for emerging technologies to increase the utilisation of the network and therefore reduce the fixed cost per unit:* In assessing the long term benefit to consumers, will this joint EA/ComCom project take into account the impact of emerging technologies on the capacity utilisation of networks? Network pricing structures are also an important influence on capacity utilisation and the timing of use of emerging technologies (eg electric vehicles and self-generation using solar pv and battery).

- *Community engagement and environmental consideration:* The community being serviced by a distribution company makes their own investment decisions based on their own values, for example, investing in solar pv or supporting community based generation projects. These investments will be competing with existing distributors as well as generators and retailers in supplying electricity. The reputation of the industry depends (in part) on how these communities / individuals perceive the 'industry' supporting their values. We suggest the entire industry approach community engagement in emerging technologies as a positive opportunity (rather than something that creates problems) – an opportunity rather than a threat.

- *A regulatory regime that is flexible enough to manage the uncertainty and change anticipated in the electricity sector:* A White Paper commissioned by ERANZ by Dr Richard Meade[2] on "Preparing Electricity Regulation for Disruptive Technologies, Business Models and Players – In the Long-Term Interests of Consumers" provides useful insights about a future regulatory environment.

We would welcome the opportunity to discuss this submission with you.

Yours sincerely

Warren McNabb
Chair

---

2 See paper at https://docs.wixstatic.com/ugd/022795_d6c22b27cf87427cb50f890774f21da3.pdf, August 2018. Presentation slides of this paper at the Treasury on 24 May 2019: https://docs.wixstatic.com/ugd/022795_20c21eafad264c9c9a553353644f8958.pdf