

Electricity Price Review – Options Paper

NZ Wind Energy Association Submission
Grenville Gaskell, CE
March 2018



Introduction

1. The New Zealand Wind Energy Association (NZWEA) welcomes the opportunity to provide a submission on the Electricity Price Review (EPR) Options Paper.
2. The Association also submitted on the EPR First Report.
3. The Association's strategy focuses on three key areas:
 - Leverage New Zealand's emissions reduction imperative to enable the energy transition to renewables, particularly wind energy.
 - Optimise wind energy's position and ensure the regulatory environment supports wind farm development.
 - Expand the opportunity for wind energy development to enable community and industrial projects including wind's integration with other technologies.
4. In this submission the Association focuses on the options which relate to NZWEA's strategy and are most relevant to the wind industry.
5. The following section summarises NZWEA's comments on the Options Paper. The last section contains comments on specific options.

Summary

6. The Association notes the two key aspects of the EPR:
 - Delivering efficient, fair and equitable prices to end-consumers.
 - Assessing whether the electricity regulatory framework will continue to be appropriate as we look into the future to enable the benefit from emerging technologies and innovation in business models.
7. As an overarching comment on the Options Paper the Association is supportive of many of the options favoured by the EPR.
8. The need for Resource Management Act reform is again highlighted by the Association as this is a key enabler of new lower cost wind generation which will benefit consumers.
9. Given the number of supported options the Association considers a transition or development roadmap with an implementation prioritisation should be included in the Final Report.
10. Summary comments on each section of the Options Paper are as follows:

Section B: Reducing energy hardship

- The proposed approach to reducing energy hardship is consistent with an all-of-government approach rather than the current direct intervention in the electricity sector with low user tariffs and their unintended negative consequences.

Section C: Increasing retail competition	<ul style="list-style-type: none"> ▪ Reducing barriers to new retailers through standard terms and ensuring access to information along with improvements to the wholesale market (section D) are the Association's preferred interventions.
Section D: Reinforcing wholesale market competition	<ul style="list-style-type: none"> ▪ Information disclosure and availability is key to wholesale market performance and needs to be consistently available for all fuels. ▪ In addition to mandatory market making the continued development of the wholesale contract market with new products and term extensions is important as is the emergence of a PPA market to support new investment. Mandatory market making needs to recognise participant risk positions and the costs of providing the service. ▪ The Association considers that, given the level of new investment in electricity generation required, and an increasing level of intermittent generation, there needs to be a fit for purpose assessment to ensure the widest possible participation levels in the spot market for independent generators, aggregators of storage and controllable demand.
Section E: Improving transmission and distribution	<ul style="list-style-type: none"> ▪ The significant forecast investment in electricity generation, transmission and distribution infrastructure requires certainty of transmission pricing, distributed generation connection costs and the reform of retail tariffs to provide appropriate price signals. These are of paramount importance to both enabling new investment and optimising electricity sector efficiency.
Section F: Improving the regulatory system	<ul style="list-style-type: none"> ▪ The focus on ensuring the regulation of the electricity sector is enhanced to support innovation and the development of new business models is welcome. ▪ It is acknowledged in the introduction to the Options Paper that "resource management reform to ensure construction of enough future generation to address decarbonisation" is deemed outside of the Reviews Terms of Reference (TOR). ▪ The Association, in its submission on the First Report, highlighted numerous issues with the Resource Management Act "one of the key barriers to competition, particularly for new entrants, is the cost and uncertainty of obtaining a consent under the RMA for renewable electricity generation.

	<ul style="list-style-type: none">▪ The Association further noted the opportunity for smaller wind farm development and that wind energy is considered the lowest cost source of new generation.▪ Given the EPR's focus on efficient fair and equitable prices to end-consumers and the future focus to benefit from emerging technologies and innovation in business models the Association considers it would be appropriate for the Review to include consideration of wider regulatory issues and how they might be improved.
Section G: Preparing for a low-carbon future	<ul style="list-style-type: none">▪ Many of the options supported in other sections of the Report enhance the ability of the electricity sector to innovate and contribute to a low carbon future.▪ Ensuring the on-going testing of security and resilience and enhanced co-ordination among agencies are important additional measures to enable future success in electricity sector transformation.

Response to Specific Questions

Section B: Reducing energy hardship

2 Define Energy Hardship

Supported.

Defining energy hardship is a pre-requisite for targeted intervention.

4 Set up a fund to help households in energy hardship become more energy efficient

Supported.

This is a logical extension of EECA's current role.

5 Offer extra financial support for households in energy hardship

Supported.

Energy hardship is best addressed by targeted government assistance rather than measures such as the low user tariff which has significant negative unintended consequences.

Summary of comments on section B

The proposed approach to reducing energy hardship is consistent with an all-of-government approach rather than the current direct intervention in the electricity sector with low user tariffs and their unintended negative consequences.

Section C: Increasing retail competition

3 Make it easier to access electricity usage data

Supported.

Access to electricity usage data is key to retail price innovation. The provision of information should be on a commercial basis or provided as a wider industry service by a third party.

4 Make distributors offer retailers standard terms

Supported.

Standard terms enable competition and improves efficiency and is necessary given the scale of the NZ market and large number of EBD's.

Summary of comments on section C

Reducing barriers to new retailers through standard terms and ensuring access to information along with improvements to the wholesale market (section D) are the Association's preferred interventions.

Section D: Reinforcing wholesale market competition

1. Toughen rules on disclosing wholesale market information

Supported.

Access to market information is essential to a well-functioning and transparent market.

The Association considers that fuel availability is a key issue and that the level of information that is currently available for hydro storage levels needs to be replicated for all thermal fuels and, as wind energy increases, potential wind generation levels based on wind speed forecasts.

2. Introduce mandatory market making obligations

Supported.

A continued investment in the wholesale contracts market is important to support the development of all renewables including wind generation and should lead to a more liquid market. The wholesale market is particularly important for independent generators to be able to firm future revenue to reduce earnings volatility, support investment decisions and secure funding.

The Association notes a number of members have been actively participating in the wholesale contracts market on a voluntary basis. Should compulsory market be introduced NZWEA considers it important that the risk positions of participants and the cost of market making are recognised in rule setting.

NZWEA considers that an issue with the current market that has not been addressed include the term of the market which should be extended from 3 years to a minimum of 5 years to provide a higher level of contract cover given that wind farms are a 20+ year investment.

The Association also notes that wholesale market product innovation is behind that of other markets. For example, the Australian wholesale market offers a quarterly base load cap on future products. An electricity price cap product was identified as a priority in December 2015 however for a number of reasons has not been able to be delivered. While a cap product has limited direct benefit to a wind farm owner it may enable a retailer to be more prepared to contract with a wind farm owner recognising the variable nature of production. Similarly the ability of independent generators, aggregators of storage and controllable demand to participate in the market needs to be ensured with systems and processes reflective of their scale.

As the market matures, we expect to see greater volumes of energy openly traded through the wholesale market which should support more dynamic generation / retail interactions and outcomes.

The Association notes that a number of contracts are transacted on a bi-lateral OTC basis outside of the ASX including a proposed PPA to support the development of a new wind farm. In addition to the wholesale market, OTC and PPA contracts are important market instruments to enable the variable output of renewable generation to be firmed.

The Association considers that the EPR in commenting that “a mandatory market-making obligation could be introduced relatively quickly” has, depending on the intended level of market-making, underestimated the complexity and risks to incumbent generators of doing so.

4 Monitor contract prices and generation costs more closely

Supported.

The Association considers that monitoring contract prices to new generation costs has merit and does not support the position that spot market pricing should always reflect the short run marginal cost (SRMC) of individual generation plant and considers plant and fuel availability a key determinant of price.

New wind farms would be uneconomic if revenue was derived from a spot market based SRMC.

Summary of comments on section D

Information disclosure and availability is key to wholesale market performance and needs to be consistently available for all fuels.

In addition to mandatory market making the continued development of the wholesale contract market with new products and term extensions is important as is the emergence of a PPA market to support new investment. Mandatory market making needs to recognise participant risk positions and the costs of providing the service.

The Association considers that, given the level of new investment in electricity generation required, and an increasing level of intermittent generation, there needs to be a fit for purpose assessment to ensure the widest possible participation levels in the spot market for independent generators, aggregators of storage and controllable demand.

Section E: Improving transmission and distribution

1 Issue a government policy statement on transmission pricing

Supported.

The Association agrees with many other stakeholders that the TPM and process has taken too long and has been too costly both in terms of direct cost and opportunity cost and that an intervention is required to make progress. NZWEA is particularly concerned about how a lack of certainty may impact new renewables investment and that current direction will result in lower incentives to reduce grid use at peak times will result in avoidable investment decisions increasing costs for consumers.

2 Issue a government policy statement on distribution pricing

Supported.

Unless electricity prices reflect the cost of providing electricity at different times of the day and year and consumers are offered the incentive to support sector efficiency an unnecessary investment in supporting peak periods will be required. Enabling load shifting and demand response also assists with managing the variability of renewables and minimising the need for high cost and high emissions gas peaking generation.

Consumers should be offered the opportunity to make electricity more affordable by changing usage patterns to better utilise existing infrastructure.

The Association considers current price structures do not support investment in new technology, network optimisation and are inefficient. Unless revised and pricing structures are introduced, in conjunction with retailers, avoidable investment will occur that will ultimately be reflected in higher electricity prices.

The timeframe for the revision of distribution charges is a concern and NZWEA notes this has been an ongoing priority that has resulted in little actual change as yet as evident from the most recent summary completed by the EA.

The Association considers the number of retailers along with the number of distribution companies poses a significant challenge to the timely introduction of retail price structures which improve overall electricity sector efficiency.

The Association also considers there remains an unresolved issue around the pricing of distributed generation connection costs. In particular whether the EA changes the rule book for distributed generation connection costs from incremental costs to including a share of common costs as originally proposed under the Distributed Generation Pricing Principles July 2016 Consultation Paper. A change to including common costs would create investment uncertainty and disadvantage distributed generation.

5 Phase out low fixed charge tariff regulations

Supported.

The Association concurs with the EPR's summary that the current low fixed charge tariff exacerbates an already inefficient price signal and has the unintended consequence of shifting distribution costs to subsidise consumers who invest in behind the meter generation but still require a network connection.

6 Ensure access to smart meter data on reasonable terms

Supported.

As noted in the Association's response to C3 access to electricity usage data is key to retail price innovation and optimising electricity system efficiency. The provision of information should be on a commercial basis or provided as a wider industry service by a third party.

A pre-requisite to the making metering data available is ensuring the provision of services by market participants is appropriately regulated as identified in Option F1.

7 Strengthen the Commerce Commission's powers to regulate distributors' performance

Supported.

There is a risk that the two-tiered model for overseeing EDB's creates differing efficiency and services quality levels.

Common quality and efficiency standards and regulatory oversight should be required of all distribution businesses whether under community or other ownership models.

Summary of comments on section E

The significant forecast investment in electricity generation, transmission and distribution infrastructure requires certainty of transmission pricing, distributed generation connection costs and the reform of retail tariffs to provide appropriate price signals. These are of paramount importance to both enabling new investment and optimising electricity sector efficiency.

Section F: Improving the regulatory system

1 Give the Electricity Authority more flexible powers to regulate network access for distributed energy services

Supported.

NZWEA in its submission on the First Report commented “The integration of distributed energy resources (DER) whether enabling small scale generation, battery storage or demand response is key to electricity sector innovation and enabling consumers to make informed investment decisions where they understand the value of their DER investment. DER development is also considered important to supporting the future growth of renewable electricity generation and ensuring the electricity system can cost effectively support generation variability. The Association submitted that it also considers there is a need to define the scope of electricity distribution businesses regulated and non-regulated services to support competition at the retail level. Currently there is a lack of clarity in defining whether new technologies represent services provided by EDB’s which should be regulated under the price quality regulation and which services EDB’s compete with retailers and other providers and are competitive in nature”.

3 Give regulators environmental and fairness goals

Partially supported.

In the Association submission on the First Report NZWEA proposed that the EA should take emissions into account in its activities, decisions and the conclusion. While including emissions adds complexity to the EA’s role, given their responsibility as the primary industry regulator, the Association considers that should be required to consider the three aspects of cost, emissions and adequacy in their decision making.

NZWEA stand by this view on the basis that the need to balance the energy trifecta is well recognised by industry participants.

5 Update the Electricity Authority’s compliance framework and strengthen its information gathering powers

Supported.

Future proofing the regulatory system requires regulatory flexibility to develop and define the rules for distributor’s involvement in distributed energy markets

Summary of comments on section F

The focus on ensuring the regulation of the electricity sector is enhanced to support innovation and the development of new business models is welcome.

It is acknowledged in the introduction to the Options Paper that “resource management reform to ensure construction of enough future generation to address decarbonisation” is deemed outside of the Reviews Terms of Reference (TOR).

The Association, in its submission on the First Report, highlighted numerous issues with the Resource Management Act “one the key barriers to competition, particularly for new entrants, is the cost and uncertainty of obtaining a consent under the RMA for renewable electricity generation. Industry challenges and issues with the RMA have been documented in submissions to the Productivity Commission’s Low-emissions Inquiry. The Productivity Commission has made a number of recommendations including revising the National Policy Statements for Renewable Electricity Generation (NPS-REG) and Transmission and introducing a new National Environmental Standard to support smaller and community-based renewables projects”.

The Association further noted the opportunity for smaller wind farm development and that wind energy is considered the lowest cost source of new generation.

Given the EPR’s focus on efficient fair and equitable prices to end-consumers and the future focus to benefit from emerging technologies and innovation in business models the Association considers it would be appropriate for the Review to include consideration of wider regulatory issues and how they might be improved.

Section G: Preparing for a low-carbon future

2 Examine security and resilience of electricity supply

Supported.

services to support competition at the retail level. Currently there is a lack of clarity in defining whether new technologies represent services provided by EDB's which should be regulated under the price quality regulation and which services EDB's compete with retailers and other providers and are competitive in nature".

3 Encourage more co-ordination among agencies

Supported.

Summary of comments on section G

Many of the options supported in other sections of the Report enhance the ability of the electricity sector to innovate and contribute to a low carbon future.

Ensuring the on-going testing of security and resilience and enhanced co-ordination among agencies are important additional measures to enable future success in electricity sector transformation.

About the NZ Wind Energy Association (NZWEA)

- The NZWEA is an industry association that promotes the development of wind as a reliable, sustainable, clean and commercially viable energy source.
- We aim to fairly represent wind energy to the public, Government and the energy sector.
- Our members are involved in the wind energy sector and include electricity generators, wind farm developers, lines companies, turbine manufacturers, consulting organisations and other providers of services to the wind sector,
- By being a member of NZWEA you are assisting the development of wind energy in New Zealand and helping to reduce our greenhouse gas emissions to meet climate change targets.

Contact details in relation to this submission:

Grenville Gaskell
Chief Executive
New Zealand Wind Energy Association
PO Box 553, Wellington 6140
grenville@nzwea.org.nz