

Submission by



to the

Electricity Authority

on the

**Strategy Development Working Draft Emerging Themes
Discussion Paper**

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STRATEGY DEVELOPMENT WORKING DRAFT EMERGING THEMES DISCUSSION PAPER – SUBMISSION BY BUSINESSNZ ENERGY COUNCIL¹

1.0 INTRODUCTION

- 1.1 The BusinessNZ Energy Council (BEC) is a group of New Zealand's energy sector organisations taking a leading role in creating a sustainable energy future. As a division of BusinessNZ, New Zealand's largest business advocacy body and member of the World Energy Council (WEC), BEC members are a cross-section of leading energy-sector business, government and research organisations. Together with its members the BEC seeks to shape the energy agenda for New Zealand.
- 1.2 On behalf of its members BEC has made several submissions relating to policy and delivery mechanisms in the electricity sector.²
- 1.3 BEC notes with interest the release of the Authority's strategy development working draft emerging themes discussion paper and is generally supportive of the general direction of this work. BEC expects that as the details emerge, additions or changes can be suggested and considered.
- 1.4 The outcomes of the workings of each facet of the electricity market (e.g. wholesale and retail electricity, distribution and transmission, regulated and non-regulated) are of vital interest to all consumers, including individual consumers and businesses. In this brief response we highlight the approach we would like to see the Authority takes to changes in the market that will lead to different outcomes.

2.0 SUMMARY

- 2.1 At present, the Authority's strategy is clear, particularly in relation to its statutory objective and functions.
- 2.2 **Consumer centricity.** Consumer centricity should be at the centre of everything the Authority does because it was created to serve the benefits of all consumers. The long-term benefit of all consumers is enshrined in the statutory objective. It should be made clear though that the cornerstone is fully functioning markets, both spot and futures, in which participants from all sectors have confidence.
- 2.3 **Thriving competition.** Competition is at the heart of delivery the mechanism for consumer benefits, innovation, and investment. This could include reference to reducing barriers and providing a level playing field for stakeholders including consumers. Competition is also central to the statutory objective and can only be achieved with an efficient spot and hedge market.
- 2.4 **Innovation flourishing.** Innovation flourishing may not need a separate line item because pure competition will accommodate innovation. However, innovations are new approaches and barriers exist, so it is important that these new approaches to the way electricity supply and demand are managed are given every opportunity to flourish on their merits.
- 2.5 **Trust and confidence.** After consumer benefits, the next stakeholder group that needs regulatory stability and confidence that change is based on analytic rigour is investors, ranging from the largest consumer and the largest generator through to the smallest consumer trying to be energy efficient or installing domestic scale PV. Security and reliability of supply is critical, particularly with the transition to more renewable generation.
- 2.6 **Zero-carbon Aotearoa.** The Authority's actions that support the path to zero carbon should fit well with the activity of the Climate Change Commission, EECA, MBIE and, of course, the ETS administered by the MfE.

¹ Background information on BusinessNZ is attached as Appendix One.

² See: <https://www.bec.org.nz/our-work/submissions>

3.0 STATUTORY OBJECTIVE

- 3.1 The Authority is the third form of industry governance since the inception of the wholesale market in 1996. The introduction of the wholesale market followed the introduction of contractual industry arrangements that allowed retail and generation competition. Initially the wholesale market was governed by a set of private multilateral contractual arrangements. These were replaced in 2003 with an Electricity Commission that was not independent of Ministerial guidance. The current Authority was established following a review of outcomes from the market in 2009. It is, critically, independent of Ministerial guidance and operates under a statutory objective.
- 3.2 At the Authority's introduction, a group of foundation documents clarified for market participants how the Authority would operate.³ One in particular, the interpretation of the Authority's statutory objective, has guided decision-making by market participants and the Authority in a number of ways.⁴
- 3.3 BEC welcomes the opportunity to comment on the emerging themes discussion paper and agrees with the Authority that the external market environment has shifted markedly. We note from the discussion paper that the Authority proposes to commence a review of the interpretation of the statutory objective (including consultation) after it receives feedback on the discussion paper.
- 3.4 The Electricity Industry Act, with its independent Electricity Authority and a statutory objective to guide it, was a response to a policy imperative. The Act provided market participants with an independent and clear governance arrangement. It was not a product of the external environment at the time, but rather was designed to serve its purpose whatever happened in the external environment. This raises the question whether the external environment has changed so much that aspects of the statutory objective and its interpretation are now rendered inadequate or redundant.

4.0 THE AUTHORITY'S STRATEGY

- 4.1 The Authority has asked if the role of the strategy is clear, particularly in relation to the statutory objective and functions. BEC would answer that, at present, the role of the Authority's strategy is clear, particularly in relation to its statutory objective and functions. We are unsure how the Authority has arrived at the view that this "has to be transformed". BEC's view is that the Authority's role is to continue to deliver on its statutory objective despite having to do so in a changing environment. Further, the Authority must continue to do this alongside agencies charged with interrelated functions.
- 4.2 The Authority's strategy development discussion paper has been released simultaneously with consultations from MfE on the development of the ETS⁵ and from MIBIE on accelerating renewable energy and energy efficiency.⁶ These follow related work by the Productivity Commission and the Interim Climate Change Commission. MBIE's and MfE's consultations are on matters that fall clearly within the Authority's mandate under its statutory objective or are the subject of the Authority's interpretation of the statutory objective.
- 4.3 The MBIE and MfE consultations, and the consultation that is the subject of this submission together have the potential to muddy the waters of who is leading policy and who is responsible for delivering the policy outcomes. BEC considers the Act, the statutory objective and the Authority's interpretation already provide clear scope for the outcomes the Authority is responsible for.
- 4.4 The Authority's strategy paper suggests that it is aware of the overlap and need for joined up thinking in this area. In connection to that, the BEC encourages the EA to more proactively input into related workstreams that overlap with its work to ensure joined up thinking occurs overall, for example by submitting to the related consultation process.

³ See: <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/foundation-documents/>

⁴ Electricity Authority, Interpretation of the Authority's statutory objective, 14 February 2011

⁵ MfE Reforming the New Zealand Emission Trading Scheme: Proposed settings December 2019

⁶ MBIE Discussion Document Accelerating renewable energy and energy efficiency December 2019

- 4.5 Whether the Authority revisits its scope or revisits its interpretation of its scope as a result of a strategy review BEC submits that:
- a) the demarcation between the Authority's roles in policy setting and outcome delivery and those of other agencies should be clear. Complementary roles should fit together well and be easily understood by the market.
 - b) If the Authority changes its strategy or, subsequently, changes its interpretation of its statutory objective, the changes should be the result of a clear problem definition and solutions developed through analytical rigour.

5.0 KEY OUTCOMES THEMES

- 5.1 Consumer centricity should be at the centre of everything the Authority does because it exists to serve the benefits of all consumers. The long-term benefit of all consumers is enshrined in the statutory objective. In everything the Authority does it should recognise that decision-making is in the process of being devolved from a small population of stakeholders to every person who chooses what energy they consume, how they consume and whether the electricity they consume will come from the grid or their rooftop.
- 5.2 Consumer centricity and the facilitation of competition are the mainstay of the Authority's role. We agree that the existing key strategic directions – improving price signals, reducing barriers, improving customer participation and increasing reliability and resilience – should remain the fundamental building blocks for achieving system outcomes. It should be made clear though that the cornerstone is fully functioning markets, both spot and futures, in which participants from all sectors have confidence. We agree with the innovation flourishing theme and commend the Authority for what the IPAG is doing in this regard.
- 5.3 Competition is rivalry, the freedom of entities to deploy innovation in all its forms, and/or find cheaper solutions for consumers. In the world that we are moving to those entities include consumers themselves. In other words, the transition to a low emissions economy will require a substantive amount of investment and regulatory certainty will be key. Decisions made should be made with access to all information necessary and with no barriers to innovation.
- 5.4 BEC understands that the trust and confidence outcomes apply to all participants in the electricity system. We seek analysis-based regulatory decision-making so investors (including small scale investors) can have confidence that the regulatory regime will change in response to circumstances and not, for example, political whim.
- 5.5 Your quest to support a zero carbon Aotearoa/New Zealand is laudable. However, the government's main policy vehicle for this outcome is a market that establishes a price for carbon: the Emissions Trading Scheme. We request the Authority delineate clearly where the ETS stops and where the Authority's role starts. We submit that the Authority should ensure that the mechanisms it is responsible for fit well with the Zero Carbon Act generally and the ETS specifically.
- 5.6 We appreciate that as the changes identified occur, participants are more impatient than ever for the Authority to be more dynamic, with a more holistic view of its domain without any relaxation of discipline when making changes.

Appendix One - Background information on BusinessNZ Energy Council

The **BusinessNZ Energy Council (BEC)** is a group of New Zealand's peak energy sector organisations taking a leading role in creating a sustainable energy future. BEC is a division of BusinessNZ, New Zealand's largest business advocacy group. BEC is a member of the **World Energy Council (WEC)**. BEC members are a cross-section of leading energy sector businesses, government and research organisations. Together with its members BEC is shaping the energy agenda for New Zealand.

Our vision is to support New Zealand's economic wellbeing through the active promotion of the sustainable development and use of energy, domestically and globally. With that goal in mind, BEC is shaping the debate through leadership, influence and advocacy.

BusinessNZ is New Zealand's largest business advocacy body, representing:

- Regional business groups **EMA**, **Business Central**, **Canterbury Employers' Chamber of Commerce**, and **Employers Otago Southland**
- **Major Companies Group** of New Zealand's largest businesses
- **Gold Group** of medium sized businesses
- **Affiliated Industries Group** of national industry associations
- **ExportNZ** representing New Zealand exporting enterprises
- **ManufacturingNZ** representing New Zealand manufacturing enterprises
- **Sustainable Business Council** of enterprises leading sustainable business practice
- **BusinessNZ Energy Council** of enterprises leading sustainable energy production and use
- **Buy NZ Made** representing producers, retailers and consumers of New Zealand-made goods

BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy and services for enterprise, BusinessNZ contributes to Government, tripartite working parties and international bodies including the International Labour Organisation (**ILO**), the International Organisation of Employers (**IOE**) and the Business and Industry Advisory Council (**BIAC**) to the Organisation for Economic Cooperation and Development (**OECD**).

