

6 December 2016

Electricity Authority

Via email: submissions@ea.govt.nz

Consultation Paper – 2017/18 Appropriations and Strategic Priorities

Mercury welcomes the opportunity to comment on the 2017/18 appropriations and strategic priorities. Mercury is an electricity generator and retailer providing energy services to homes, businesses and industrial customers throughout New Zealand. We have a long heritage in renewable energy in New Zealand serving about 1-in-5 homes and businesses under the Mercury brand and other specialty brands. We also have proven capability and technical expertise in smart metering services and solar. Our goal is to be the leading energy brand in New Zealand, inspiring our customers, owners and partners by delivering value, innovation and outstanding experiences.

Promote market development

Mercury supports the Authority's focus on emerging technology as one of the main opportunities facing the electricity sector. New technologies and innovation provides scope to transform both businesses and consumers' relationship to energy services. With many traditional and non-traditional entities looking to enter this space the Authority will have an important role to play in ensuring regulation maintains a level playing field for competition and delivers long term value for consumers.

Areas we consider the Authority's work programme should focus include assessing the potential market impacts from the investment by regulated distribution monopolies of battery storage. Such investments will earn regulated returns for providing network deferral benefits but will also be operated to earn unregulated revenue in ancillary markets. As such it is important that consumers are not effectively "paying twice" for services.

One way to improve outcomes for consumers is for the Authority to promote transparency measures to enable competitive market solutions to distribution network constraints. This could include requiring distributors to provide public information on where network constraints currently exist to enable third parties to suggest investments and ensure the most cost effective solution for the consumer is adopted. This will result in more long-term efficient investment in infrastructure and lower costs to the benefit of consumers.

Consumer choice and competition

Access and privacy of electricity consumption data is an important issue. Consumption data has value in a wide range of applications including for network planning and enabling new forms of business and customer participation in the market. Mercury supports cost reflective and market based provision of data to ensure a level playing field for all potential applications, both present and future.

Mercury is of the view there are currently no barriers to data being provided to consumers and third parties.

Consumers are currently able to access consumption data either directly via their retailer or subject to an authorisation process to nominated agents, subject to appropriate protections for consumer privacy. The measures



and assurance needed to protect consumer privacy in our view will only increase as more granular data is made available and potentially becomes more personal in nature.

In terms of business-to-business interactions, consumer data is readily available via commercial arrangements with Meter Equipment Providers (MEPs) who invest in the metering infrastructure to capture consumption data. The cost of this capital and the on-going costs involved with collecting and maintaining the data and equipment (as well as the development of new services and innovation) are incurred by the MEP and recovered via commercial arrangements. Retailers and some distributors are currently subject to such arrangements which are important to the on-going sustainability of the market and ensuring a level playing field in terms of access to data. We consider all parties should be subject to the same market arrangements for access to data in the future.

Electricity Distribution Businesses also have the ability to access consumption data as part of their use of system agreements with retailers for network planning purposes. As the boundary between regulated and non-regulated services blurs the risks of networks using such data for commercial purposes increases. We support consideration of further regulatory measures to provide greater transparency as to how this data is being utilised and being kept separate from unregulated activities.

Risk and risk management

With respect to hedge market development, Mercury's preference is for the market to grow according to demand, with regulation only considered as a last resort and subject to a clear net benefit test. Mercury thanks the Authority for its recent positive response to the request from industry participants for consideration of adding another central North Island Financial Transmission Right market node. We believe this is an important positive development that will support effective hedging with the wholesale market in the future.

Pricing and cost allocation

Mercury supports the focus on shifting toward more efficient distribution pricing over time. We also agree that given the wide range of situations among various geographical locations the circumstances for each EBD will be different. While it will be difficult to suggest a single pricing approach, there is value in promoting further standardisation among tariff structures and we support and welcome the initiative by the Electricity Networks Association to work toward this goal.

In Mercury's experience, the majority of consumers have a preference for simple, easy to understand pricing. We see that one downside of the current drive for more cost reflective and service based pricing is a potential proliferation of tariff structures to an already heavily complicated system. Consumer education will be important in any transition and in this respect we support the Authority's drive toward the roadmap approach. We also support the Authority view that it is retail competition that will determine pass through of distribution pricing structures by retailers and therefore there is no need to mandate pass through.

Mercury also looks forward to the Transmission Pricing Methodology project reaching its conclusion in the period of this work programme.

Operate the electricity system and markets

Mercury is keen to see the electricity market transition from island-based cost allocation to national cost allocation. This is crucial to a well-functioning national reserves market which encourages participants in both islands to efficiently offer and compete for reserves.

We support the System Operator proposed service enhancement projects however would be concerned if the consultative process takes an extended period of time. This could result in individual participants realising a financial advantage until changes are effected.



Monitor, inform and educate

In general Mercury supports this work however we would suggest that the Authority focus on balanced education of consumers who may be impacted by current or future market conditions. In our view monitoring, informing and educating purely to satisfy the ticking of this objective off will not be an efficient process. Mercury would not want consumers to perceive that the communications and initiatives the Authority suggests are of little or no value as saturation point has been reached.

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Yours sincerely

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