

Spotlight on emerging contestable services – a joint Electricity Authority–Commerce Commission project

Terms of Reference

Context

1. Emerging technologies are giving consumers more options for their energy use and enabling new business models. The use of these technologies is influenced by the policy and regulatory environment and in particular how this shapes market structures. Relevant market settings include the separation of electricity generation, distribution and retailing businesses, and the level of investment in and performance of these businesses.

What we are doing

2. This project builds on earlier work done by the Electricity Authority (Authority) and Commerce Commission (Commission) to understand how emerging technologies are developing in the electricity sector, and the implications of these technologies for our respective regulatory frameworks.¹
3. It will focus on how electricity distributors and other providers are increasingly participating in new markets that use emerging technologies, such as distributed energy services. We are considering the extent to which distributors' activities in these markets could benefit consumers or hinder the development of competition in these markets in the long term.

Why we are doing this

4. Distributors play a critical role in the pace and direction of the fundamental changes to the electricity sector from emerging technologies because they each manage access to the power lines delivering electricity to consumers in the area they operate. The Authority and the Commission want to better understand whether current regulatory frameworks are fit-for-purpose and support a pace of change that creates the best possible outcomes for consumers in the long term.
5. We want to establish a shared understanding of the types of circumstances where distributor activity has an impact in emerging technology markets. We also want to

¹ The Authority has a series of projects focused on reducing barriers to uptake of evolving technologies and business models across the supply chain, including the Additional consumer choice of electricity services, Equal access, Distribution pricing and Default distributor agreement projects. As part of the Input methodologies review, the Commission indicated it would need to increase its knowledge and understanding of emerging technology-related developments. Subsequent to that, a project was launched to gather information on the impact of emerging technologies in monopoly parts of the electricity sector.

develop a framework we can use to assess if, when and how current or potential regulatory tools could be used to address harms.

6. We expect this work will help make transparent any views we may hold on distributors supplying contestable electricity services.

What will we produce:

7. We expect to publish a research paper outlining our framework, assessment and conclusions.
8. In developing this paper, we expect to work through two main stages:
 - 8.1 develop a framework for identifying and assessing the costs and benefits of a distributor supplying contestable electricity services, including the wider costs and benefits of regulatory tools that could be applied to mitigate competition or other concerns
 - 8.2 complete a qualitative assessment of the costs, benefits and impact on consumers for a range of circumstances where distributors are or could supply contestable electricity services.
9. The latter will involve applying the new framework to a series of case studies. This will provide examples of the circumstances that could give rise to the potential benefits (such as, efficiencies from vertical integration) and the potential costs (such as, the potential to reduce competition).
10. We expect to rely on available information in completing this work. We do not expect to request further information from stakeholders.

When we are doing this

11. We will endeavour to complete this work by Q3 2019 and will signal key phases of the project to stakeholders in advance.

How are we doing this

12. We expect to seek stakeholder views on:
 - 12.1 our draft framework and the qualitative assessment of the costs and benefits, and consumer impact.
 - 12.2 our draft conclusions on how we could alleviate potential harms to consumers or encourage any benefits to consumers arising from distributors supplying contestable electricity services.