

## IM Forum – the impact of technical change

Questions regarding regulatory impacts



# What are we hearing?

- Network assets will be asked to perform different tasks – uncertainty
- Consumers will be looking to buy different services – also uncertainty
- Demand levels are likely to be more uncertain
- Changes will be different depending on location, consumer types, economic and demographic factors
- Q for networks: how to reconfigure assets, business models, pricing over time

# What is the starting point?

- Variation in EDB business models
  - Allocation of costs across consumers
  - Method of recovering cost
  - Exposure to related businesses
  - Participation in offering new technology
  - Lack of direct customer relationship
- Q for EDBs:
  - How well does the building block model fit now?
  - What incentives does the model provide for:
    - Take-up of new technology
    - New services
  - How do EDBs show consumer benefit?

# Problem definition. 1

- Q: How to think about networks cost recovery amid uncertainty and changing risk allocation
  - This morning session discussed latter
- Q: Will we need to adapt the existing IM cost recovery structure
  - Built from a ‘less uncertain’ outlook => fixed building block model
  - This has changed => should regulatory model change too, or ...
  - Can we adapt what we have – add incentive and performance comparison modules, or ...
- Should we invent a new cost recovery structure

## Problem definition. 2

- Monopoly status of networks may change over time starting quite soon
  - Generation is moving closer to load in distribution n/w
  - Demand is not expected to grow
  - Load efficiency is improving - technology
  - Networks are getting pressured
- Q: Are regulators constrained
  - Regulatory objectives
  - Form of control
  - Pricing approaches

## Problem definition. 3

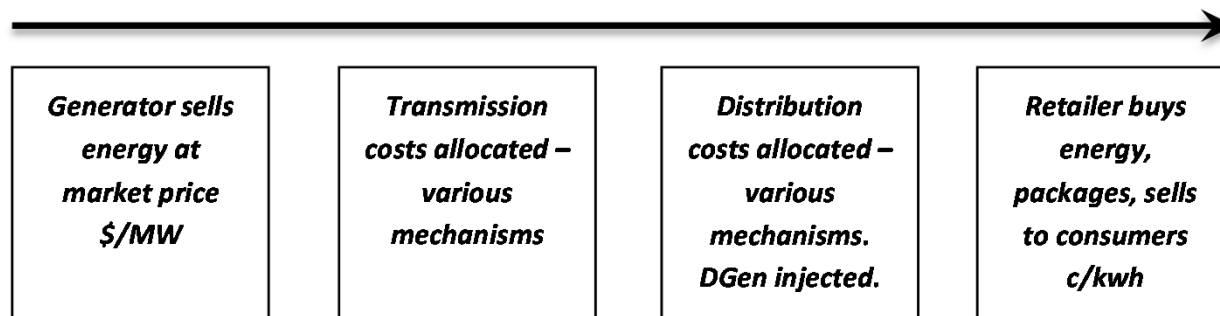
- Q: Co-ordination with other regulators
- Overlapping decisions:
  - EA decision on allocation of Transpower costs
    - Major element of EDB cost - various options for pass-through
  - Commission decision on Transpower investment
    - Supposed to feedback to grid/EDB asset use
- Effects of other regulation
  - Low Fixed Charges – obstruct efficient pricing

## Problem definition. 4

- Q: What about consumers – long term welfare matters
- Long term = series of short terms
- Retail prices of grid supplied energy
  - Network investment and cost increases – RCP1, RCP2
  - Energy demand declining – EDGS scenarios
  - Price/revenue cap CPI – distribution networks
  - Guaranteed revenue – transmission grid
- Cost of alternatives
  - SGF material on PV and storage – nearly there!
  - Not always economic decisions
- Economic signals from system need to be efficient

# IM's and the system

- Agreed that technical change will impact IM's
- Will also impact pricing of network services
- IM's and pricing need to be aligned so adoption of technical change is efficient



- Relative performance of the system overall becomes important
- The need to change is just a matter of timing