

FlexForum session XV 18-08-22 notes

When	0900 – 1200, Thursday 18 August 2022
Where	Virtual
Who	<p>Glen Baxter (Ara Ake), Shay Brazier (ReVolve Energy), John Campbell (Our Energy), Jason Christini Crawford (Electricity), Glenn Coates (Aurora), Craig Hackett (Influx), Jenny Van der Merwe (Kāinga Ora), Terry Paddy (Cortexo), Eric Pyle (solarZero), Buddhika Rajapakse (Mercury), Scott Scrimgeour (Wellington Electricity), James Tipping (Vector), Evie Trolove, (Orion), Peter Southey-Jensen, (Manawa)</p> <p>Guests: Nicole Kirkham, MBIE, John McCabe, MBIE, Nathan Spence, Electricity Authority, John Rampton, Commerce Commission, Clare Penno, EECA, Helene Smythe, EECA, Jonathan Young, Ara Ake, Diego de Villa Lobos, ComCom, Debbie Buck, MBIE, Brian Vass, MBIE</p> <p>Facilitator: Geoff Sharples</p> <p>Secretariat: Craig Evans, Matt Smith</p>

Session notes

Agenda overview

The group agreed the agenda.

Item 1: Learning-by-doing ecosystem

The group heard from EECA, Ara Ake, the Commerce Commission and MBIE about their roles in supporting learning-by-doing in the electricity sector.

EECA covered:

- the purpose of the low emission transport fund – to encourage innovation in transport and technologies resulting in transport decarbonisation
- outlined some examples of projects EECA has supported.

Ara Ake covered:

- there is alignment between the Ara Ake role and the FlexForum objective regarding collaboration and information sharing, potentially including a knowledge hub collating projects, outcomes and insights
- the MTR pilot is an example of how Ara Ake can support learning-by-doing through coordinating delivery of projects in the Flexibility Plan

MBIE covered:

- an overview of Māori and Public Housing Renewable energy fund. The initiative is focused on communities. Outcomes observed to date include reduced energy costs and improved health/wellbeing. Lots of interest in renewable energy funding
 - monthly energy bills halved in some cases alongside increased amenity (warmer homes). The impacts are more material for low-income households
 - wider benefits, including from skills development and sharing
 - increased energy literacy and knowledge
- advanced energy technology platform fund is fully invested and not for demonstration projects.
- other initiatives are being developed
 - Arahia innovation trailblazing grant. To be launched in late 2022. Target is businesses with ideas with significant spillover benefits, including platforms, ie most impactful non-R&D innovation
 - Climate innovation platform. To be launched in late 2022. It is designed to accelerate decarbonisation generally.

The Commerce Commission covered:

- contextual information about Commission role and approach
 - the different regulatory treatment of consumer-owned (exempt) versus non-consumer owned (non-exempt) distributors. Exempt distributors have wide discretion regarding pricing and investment levels, including funding of innovation
 - the Commission has no resources of its own to support or fund innovation. It provides the regulatory settings – rules – which provide the revenue envelope and funding which distributors then chose how to allocate, including to invest in innovation.
- regulatory settings are designed to encourage innovation. The Commission is currently reviewing the Input Methodologies which define the rules. The Commission tries to ensure there are no barriers to people wanting to do innovative things

- the default price path enables expenditure required to operate networks, including to invest in learning-by-doing
- incentives are provided to ensure distributors make efficient expenditure choices
- an innovation allowance was included in the DPP for the current regulatory period. It has not been used. There are concerns about its workability
- the information disclosure framework is being updated, with proposals including to require reporting on innovation practices, including case studies and trials and to require information on how distributors consider non-network solutions to inform capex projections

The group discussed the opportunities and challenges of the support available for learning-by-doing.

- don't underestimate the human factors and how difficult learning-by-doing is, particularly in the electricity sector which has been regarded as the 2nd least innovative sector in the economy
- there needs to be a change in how risk is treated, particularly for distributors, and to provide confidence that it is reasonable to get things wrong to learn. Currently distributors cannot be confident about the risk and return on investments with less certainty about the outcome, resulting in a preference for activities that do provide certainty about risk and return
- innovation is riskier than business as usual activities. A key question is how risk is allocated between consumers, service providers, and the distributor. Risk allocation is currently deterring investment in riskier activities. Most innovation currently occurs out of goodwill, not due to regulatory incentives
- international experience indicates dedicated funding for innovation has worked well by enabling significant changes to corporate cultures and mitigating scepticism within distributors about riskier activities. Critical elements of dedicated funding are funding is applied externally (ie, the distributor involves third parties), solutions should be scalable, experience shared to avoid duplication, and a clear focus on consumer benefits
- prospective suppliers of flexibility and firms involved in the flexibility ecosystem do not have a lesser ability or incentive to invest in learning-by-doing because the risk is material relative to the reward. Greenfields innovation may fail and businesses bear the risk and cost
- providing the ability and incentives for green-fields innovation requires allocating risk between counterparties (and potentially across the economy) and distinguishing between actual and perceived risk

- Mindset change will help to address perceived risk. How much should consumers be asked to fund mindset change?
- the time horizon for recouping the value of investment matters. Flexibility will result in lower costs in long term, but perhaps not in short term. However, without support to scale up, it is not clear how the lower cost solution would become available. The problem is common to the commercialisation of new products/services – active intervention allows commercialisation and scaling. It is not plausible to expect commercialisation to occur ‘naturally’ at the pace required
- learning by doing is more than technology innovation. Business model innovation is perhaps more important. Identifying a scalable opportunity is about getting the business model right, less whether a about technology is capable of performing the required function/to the required standard.
- parties currently attempting learning-by-doing in the electricity sector must address a funding gap for innovation activities and learning by doing by cobbling together various funding initiatives. There is no specific focus on flexibility and electrifying the economy. How might the FlexForum work with government agencies to develop a dedicated initiative that is focused on this idea of delivering flexibility for the whole system.¹

Item 2: Flexibility Plan – proposed actions and process for finalising the plan

The group discussed the proposed actions and process for finalising the plan.

Members agreed to read and provide written comments on the proposed actions.

Members also agreed to obtain necessary internal approvals to allow the document to be finalised and made generally available by 31 August 2022.

General comments:

- content will never be perfect. Make sure the document is well presented
- clarify that the Flexibility Plan is attempting to reflect the voice of consumers, but is not written for a consumer
- consider the potential for identifying priorities
- Ara Ake is available to support proofing and ensuring the document is well presented

¹ For example, see the UK [Flexibility Innovation Programme](#)

- Include a qualification that members do not necessarily agree with all actions

Provide a final draft of the document to the group for review on Monday 22 August.

Item 3: Workplan, engagement and communication

The group discussed the engagement plan and desired outcomes following finalising the Flexibility Plan.

- MBIE has agreed to co-fund. There is no firm commitment yet of the corresponding industry support. The group confirmed its position that financial support does not mean buying a voice
- the group agreed to talk with key stakeholders over the coming months to get feedback on the Flexibility Plan and the way forward
- after talking with stakeholders, the group would hold a delivery model workshop to get consensus on permanent arrangements for delivering the Flexibility Plan and enable a transition from an ad hoc to formal group and framework.
- following finalising the Flexibility Plan, FlexForum members would begin delivering demonstration projects aligned with the actions in the Flexibility Plan
- the next phase is expected to involve less frequent meetings (ie, monthly). The purpose of the meetings would be to check on progress with actions, projects etc and coordinate stakeholder engagement and identify potential updates to the Flexibility Plan.

The group requested a clear scope and deliverables for the next phase to provide information on what parties are getting from their involvement.

The group agreed to make a submission on the EECA green paper on EV charging.

The group noted arrangements for presenting at the SEANZ conference.

4: Administration – governance, budget, and funding

The group heard an update on the FlexForum budget.

No material expenses since the previous update. Funds are available if needed.

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