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23 October 2018

Miriam Dean QC  
Chair of Electricity Review Panel  
C/- Ministry of Business, Innovations and Employment,  
Wellington

By email: [energymarkets@mbie.govt.nz](mailto:energymarkets@mbie.govt.nz)

## **POWERCO – SUBMISSION ON ELECTRICITY PRICE REVIEW (FIRST REPORT)**

Thank you for the opportunity to submit on the First Report of the Electricity Price Review (EPR).

Decisions that Powerco make have a material impact on people's lives

This responsibility guides us and we hold it close

It is in our thinking in all our decisions, interactions and engagements

We underpin the lives and wellbeing of communities, people, and the economy across a range of urban and rural areas across the North Island (see Attachment 1). In addition to meeting safety and reliability needs, we are acutely aware that our decisions contribute to energy costs which have become a material part of household and business expenses.

Consumers on our networks are facing projected increases to other parts of their daily lives eg insurance<sup>1</sup> and rates are expected to increase +~50% over the next decade<sup>2</sup>. In this context, regulatory and policy settings must support the delivery of services at lowest cost across the energy sector, including the electricity sector which is the scope of the EPR. This will also be an issue for the Interim Climate Change Commission in its work on the impacts of decarbonisation.

The First Report highlighted the scale of energy hardship in New Zealand. Nearly a third of all households struggle to pay their power bills or spend a large part of their income on power<sup>3</sup>. In addition, low-income households spend proportionately more on energy and are likely to be more heavily affected by the transition to a low-emissions economy.<sup>4</sup> As noted in the report, 'affordability is clearly a problem the industry, regulators and government must tackle together'.

With that lens, the question we're asking ourselves is: how can distributors do their bit?

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<sup>1</sup> <http://www.stuff.co.nz/environment/climate-news/98001955/How-climate-change-could-send-your-insurance-costs-soaring>.

<sup>2</sup> 'Looming rates house of cards', Dominion Post, 19 July 2017, pp 14-15.

<sup>3</sup> Electricity Price Review – Hikohiko Te Uira: First Report (30 August 2018), p 25.

<sup>4</sup> Low-emissions economy report, Productivity Commission, p 292.

We think it boils down to:

- confidence that distributors provide safe and reliable network services at the lowest effective cost (including future costs). That applies to what and how and when we invest<sup>5</sup> to deliver those services.
- distributors provide a neutral platform over which contestable markets can transact and develop – without getting in the way or skewing the playing field.

We're confident the existing regulatory framework can support distributors delivering this eg via periodic reviews of Input Methodologies. This will be vital when the Climate Change Commission is established.

This doesn't mean no regulatory change – it does mean a proportionate and measured approach to regulatory development can deliver outcomes that meet the long-term interests of consumers. Regulation must evolve as the environment around it evolves. New Zealand has shown the way in doing this well<sup>6</sup>, reinforcing the Panel's conclusions about the regulatory regime applying to distributors.

In terms of changes that might deliver confidence that the costs to consumers are satisfactory, some options include:

- More transparency about distributor costs to demonstrate that prices for regulated services only reflect the costs to provide it
- Benchmarking studies of EDB costs to demonstrate and explore reasons for cost variations, including quality, customer service, and governance
- Move large distributors on to an individualised price/quality path regime to provide a higher degree of transparency for companies that serve most consumers and allow the default price/quality path regime to be tailored for small distributors.
- Market testing of major investments by distributors (applied pragmatically)
- Fine tuning the legislation around provision of network services using new technologies for consumers in remote/expensive areas
- Ensuring that addressing energy poverty is undertaken by those most qualified to do so

Powerco has completed the submission form (attached) focusing on the aspects that we have experience in and/or can make meaningful comment in the time available. We have contributed to and support the submissions of the Energy Networks Association (excluding the comments on retail and wholesale markets) and Business New Zealand (Sapere report).

We look forward to the next steps in the process of the review. If you have any questions on this submission, or would like to discuss these issues further, please contact Andrew Kerr (Andrew.Kerr@powerco.co.nz).

Yours sincerely



Stuart Marshall  
General Manager – Regulation and Commercial

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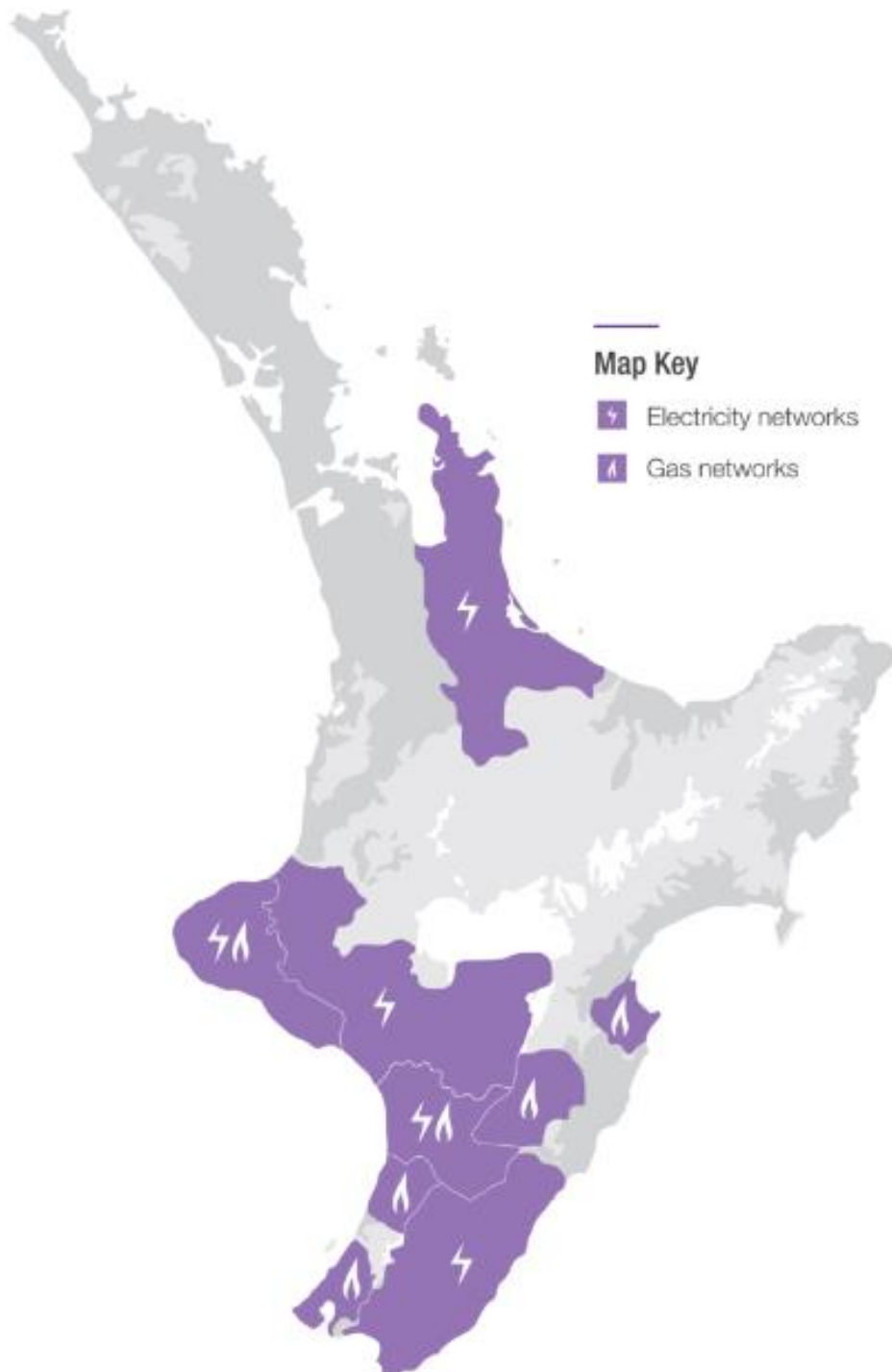
<sup>5</sup> 'Regulatory investment - an investment for which capital expenditure or operating cost are included in prices' (Commerce Commission).

<sup>6</sup> Regulatory Framework Score for New Zealand Regulated Utilities Revised to Strong, 22 April 2018, Standard & Poor's.

## Attachment A: About Powerco

Powerco is a dual energy distributor with electricity lines and gas pipelines. Powerco is New Zealand's largest electricity distributor in terms of network length (27,900km) and has the second largest number of electricity connections (335,000). The company also has the second largest gas distribution network (5815km) and the largest number of gas connections (104,000).

- *Electricity distribution.* Powerco's electricity networks are in the Taranaki, Wanganui, Rangitikei, Manawatu, Wairarapa, Bay of Plenty, Coromandel and Waikato regions, including the urban centres of New Plymouth, Wanganui, Palmerston North, Masterton and Tauranga.
- *Gas distribution.* Powerco's gas networks are in the Taranaki, Manawatu, Hutt Valley, Porirua, Wellington City, Horowhenua and Hawke's Bay regions





# **ELECTRICITY PRICE REVIEW**

**SUBMISSION FORM**

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## How to have your say

We are seeking submissions from the public and industry on our first report into the state of the electricity sector. The report contains a series of questions, which are listed in this form in the order in which they appear. You are free to answer some or all of them.

Where possible, please include evidence (such as facts, figures or relevant examples) to support your views. Please be sure to focus on the question asked and keep each answer short. There are also boxes for you to summarise your key points on Parts three, four and five of the report – we will use these when publishing a summary of responses. There are also boxes to briefly set out potential solutions to issues and concerns raised in the report, and one box at the end for you to include additional information not covered by the other questions.

We would prefer if you completed this form electronically. (The answer boxes will expand as you write.) You can print the form and write your responses. (In that case, expand the boxes before printing. If you still run out of room, continue your responses on an attached piece of paper, but be sure to label it so we know which question it relates to.)

We may contact you if we need to clarify any aspect of your submission.

Email your submission to [energymarkets@mbie.govt.nz](mailto:energymarkets@mbie.govt.nz) or post it to:

Electricity Price Review

Secretariat, Ministry of Business, Innovation and Employment

15 Stout Street

PO Box 1473

Wellington 6140

### Contact details

<b>Name</b>	<b>Andrew Kerr</b>
<b>Organisation</b>	<b>Powerco</b>
<b>Email address or physical address</b>	<b>Andrew.Kerr@powerco.co.nz</b>

## **Use of information**

We will use your feedback to help us prepare a report to the Government. This second report will recommend improvements to the structure and conduct of the sector, including to the regulatory framework.

We will publish all submissions in PDF form on the website of the Ministry of Business, Innovation and Employment (MBIE), except any material you identify as confidential or that we consider may be defamatory. By making a submission, we consider you have agreed to publication of your submission unless you clearly specify otherwise.

## **Release of information**

Please indicate on the front of your submission whether it contains confidential information and mark the text accordingly. If your submission includes confidential information, please send us a separate public version of the submission.

Please be aware that all information in submissions is subject to the Official Information Act 1982. If we receive an official information request to release confidential parts of a submission, we will contact the submitter when responding to the request.

## **Private information**

The Privacy Act 1993 establishes certain principles regarding the collection, use and disclosure of information about individuals by various agencies, including MBIE. Any personal information in your submission will be used solely to help develop policy advice for this review. Please clearly indicate in your submission whether you want your name to be excluded from any summary of submissions we may publish.

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## Summary of questions

### Part three: Consumers and prices

#### Consumer interests

##### 1. *What are your views on the assessment of consumers' priorities?*

A core part of Powerco's 2017 CPP application was to assess consumer priorities relating to the distribution service we're delivering now and in the future. That showed that consumer priorities were:

- a) The safe operation of our network is more important than price
- b) Our networks should be resilient enough to ride through storms
- c) We should replace parts of the network before they break
- d) Current reliability should be maintained and
- e) Price is important, and for some customers it may be more important than maintaining reliability.

The increased reliance on internet technology will have a bearing on consumer expectations in the future. For example, The Government's ultra-fast broadband initiative plans to have fibre available to over 85% of the population by 2022. Those that do connect to fibre or alternative technologies will have an increased reliance on the coincident power supply to their homes/business<sup>1</sup> and to the infrastructure of the companies providing internet services. Chorus is planning to migrate consumers off copper services to fibre<sup>2</sup>, which will increase the value and reliance on network supply to communities and consumers so they can stay connected.

##### 2. *What are your views on whether consumers have an effective voice in the electricity sector?*

In terms of distribution sector issues, our job is not merely to provide low-cost electricity; it is to understand our customers' requirement and deliver that service in a cost-effective manner.

Our CPP consultation provided an opportunity to 'hear' that consumer voice and adjust our proposal. This seems like an appropriate mechanism to get an effective voice on the distributor service, noting that it will continue to evolve and needs to be flexible. For example, consumer panels can be established to meet a specific application/requirement so that they provide targeted and timely feedback.

We expect parties will provide additional views on the effectiveness of the customer voice on a sector-wide basis.

We agree that collaboration on consumer interest issues is valuable. Powerco is the only distributor to have joined ERANZ's "vulnerable customer working group". There are several areas of overlap where better coordination and communication within the industry can improve outcomes for consumers.

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<sup>1</sup> The optical network terminal (ONT) at the consumer's site requires a power supply to connect to the Chorus network <https://www.chorus.co.nz/q>. The Chorus network also requires power to operate it's 11,000 cabinets and 600 exchanges.

<sup>2</sup> See 15 October 2018 investor presentation, page 26, <https://company.chorus.co.nz/investor-news>

3. *What are your views on whether consumers trust the electricity sector to look after their interests?*

Customers tell us that they place high value on a safe and reliable electricity network, and that we generally meet their expectations in providing this. We have no additional evidence to add on how this extends to the sector as a whole.

## Prices

4. *What are your views on the assessment of the make-up of recent price changes?*

We have no additional evidence to add at this point. Given the nature and scale of reforms in the electricity sector, 'recent' price changes would suggest a shorter time horizon is appropriate. For example, the analysis in Figure 20 (cash flows for generators and retailers) effectively starts from 2003, and the profitability analysis for Transpower starts from 2012.

5. *What are your views on the assessment of how electricity prices compare internationally?*

The assessment is balanced.

6. *What are your views on the outlook for electricity prices?*

It is too early to make definitive calls on the outlook for prices. It seems right to expect that the cost of new technology will fall over time. What we don't know is whether that will be enough to counter balance the forces pushing the price up. This includes the increases (some say doubling) of demand, the challenges of building new generation quickly enough, the effect the price of carbon will have on energy prices generally, and the infrastructure to enable this.

## Affordability

7. *What are your views on the assessment of the size of the affordability problem?*

Consumers on our networks are facing projected increases to other parts of their daily lives eg insurance<sup>3</sup> and rates are expected to increase +~50% over the next decade<sup>4</sup>. In this context, regulatory and policy settings must support the delivery of services at lowest cost across the energy sector, including the electricity sector which is the scope of the EPR.

The First Report highlighted the scale of energy hardship in New Zealand. Nearly a third of all households struggle to pay their power bills or spend a large part of their income on power<sup>5</sup>. In addition, low-income households spend proportionately more on energy and are likely to be more heavily affected by the transition to a low-emissions

<sup>3</sup> <http://www.stuff.co.nz/environment/climate-news/98001955/How-climate-change-could-send-your-insurance-costs-soaring>.

<sup>4</sup> 'Looming rates house of cards', Dominion Post, 19 July 2017, pp 14-15.

<sup>5</sup> Electricity Price Review – Hikohiko Te Uira: First Report (30 August 2018), p 25.



economy.<sup>6</sup> As noted in the report, 'affordability is clearly a problem the industry, regulators and government must tackle together'.

A common understanding of affordability will help ensure measures to address it are meaningful and effective. The Sapere report (for Business New Zealand) presents a discussion on fuel poverty (which is definable and measurable) and then what analysis would follow to assess whether the sector is operating efficiently.

**8. What are your views of the assessment of the causes of the affordability problem?**

As for question 7.

**9. What are your views of the assessment of the outlook for the affordability problem?**

We agree that affordability is clearly a problem the industry, regulators and government must tackle together. Addressing it should be undertaken by those most qualified to do so. We support the ENA's suggestions around reviewing the Winter Energy Payment and/or a retail option for consumers who struggle to find a retailer.

### Summary of feedback on Part three

**10. Please summarise your key points on Part three.**

- Powerco's CPP application involved assessing consumer priorities relating to the service we're providing now and in the near future. This emphasised the importance of safety, resilience, and reliability along with price.
- A discussion of affordability/fuel poverty needs agreed definitions before policy, market, and welfare solutions are considered.
- Looking ahead, there are several counter-balancing factors that will affect prices. This reiterates the need for robust policy and regulatory development.
- For distributors, this is articulated simply and clearly by the Commerce Commission in its 8 June 2018 note to the panel: 'We place incentives on electricity lines businesses to make the efficient choices'

### Solutions to issues and concerns raised in Part three

**11. Please briefly describe any potential solutions to the issues and concerns raised in Part three.**

*Accelerate take-up of cost-reflective pricing.*

Accelerating cost-reflective network pricing (distribution and transmission) would provide better signals to retailers/customers about the costs of delivering the network service to them. It can be considered (as now) amongst the other components of their energy costs/bill. This needs to be made in tandem with issues like: removal of the low fixed charge regulations, affordability, transition impacts for customers, system costs to retailers/distributors, smart meter requirements and availability, data availability to design and implement prices.

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<sup>6</sup> Low-emissions economy report, Productivity Commission, p 292.

## Part four: Industry

### Generation

12. *What are your views on the assessment of generation sector performance?*

No comment

13. *What are your views on the assessment of barriers to competition in the generation sector?*

No comment

14. *What are your views on whether current arrangements will ensure sufficient new generation to meet demand?*

We have not developed any new evidence on this topic.

### Retailing

15. *What are your views on the assessment of retail sector performance?*

On the issue of promptly passing through “reductions in distribution charges”, it is “changes” in distribution charges that should be considered. Distribution tariffs are one of many input costs that retailers manage and respond to. Retailers choose how to reflect these input costs in their retail prices. At this stage we have no evidence of inefficiency that this mechanism is causing.

16. *What are your views on the assessment of barriers to competition in retailing?*

No comment.

## Vertical integration

17. *What are your views on the assessment of vertical integration and the contract market?*

We see distribution networks as a platform over which markets can transact. We want those markets to work. The Sapere report (see Business New Zealand submission) suggests that there is no evidence of foreclosure or price squeezing by vertically integrated generator retailers.

This issue needs careful consideration of problems and symptoms so that any solutions provide attributable benefits.

18. *What are your views on the assessment of generators' and retailers' profits?*

We have not developed any new evidence on this topic.

## Transmission

19. *What are your views on the process, timing and fairness aspects of the transmission pricing methodology?*

Powerco is one of several distributors embracing pricing reform to send appropriate cost reflective signals to users of our services. Distribution pricing is just part of the equation. Transmission pricing is an important component too. We support the efforts of the Authority and Transpower to review transmission pricing. This aligns with the increased visibility and importance of pricing across the supply chain and in the context of other living costs. The price of electricity ought to reflect the cost to the system as a whole.

We have no additional comments to make about the process and timing that we haven't made through previous consultations.

## Distribution

20. *What are your views on the assessment of distributors' profits?*

We agree with the assessment.

The profitability assessment aligns with what should be expected under the regulatory regime. Quality is an equally important part of the regulatory framework that consumers experience and prioritise (see Question 1).

Regarding concerns about cross-subsidisation, if there are material concerns, then we are open to measures that demonstrate that prices for regulated services only reflect the costs to provide it. The Commerce Commission's recent request for the "emerging technology" data is an example of how this can be achieved. We support the approach to the request, which involved working alongside distributors and obtaining objective data before designing policy responses.

21. *What are your views on the assessment of barriers to greater efficiency for distributors?*

We agree that distribution prices should more accurately reflect cost and the industry is on a journey to evolve them. The Low Fixed Charge regulations limit our ability to innovate, so their removal would remove this barrier. We also need access to consumption data to develop prices. Moving to more cost reflective pricing with temporal and spatial dimensions will increase the scope of data needed.

In terms of efficiency pressures and business size, stakeholders need confidence that distributor costs are efficient for the service provided. We support the use of benchmarking studies to demonstrate and explore the reasons for cost variations in conjunction with quality, customer service, and governance. The recent TDB Advisory study<sup>7</sup> was a useful exercise to begin exploring this issue.

Solution options to improve confidence around transparency and efficiency are:

- *Move all large distributors on to an individualised price/quality path regime.* This would provide a high degree of scrutiny of network business that serve the most customers and address concerns about barriers to applying for a customised price path. This would allow the default price/quality path to be tailored for the needs of smaller distributors.
- *Market testing of major investments by distributors.* Applied pragmatically, the consideration of non-transmission alternatives to network solutions has the potential to promote efficient distribution network investment for the long-term interests of consumers. This would be achieved by enhancing consistency, transparency and predictability in planning processes.

As an example of market testing, Powerco has released a 'request for interest' regarding non-network alternatives for a proposed central North Island reinforcement project (Hinuera). This is available on our website here: <https://www.powerco.co.nz/about-us/your-view/current-consultations/>

We are supportive of an open-access regime for meter data to minimise costs for consumers (both network and data access). We need to understand consumer behaviour and preferences - including potential behaviour - to ensure we can operate our network efficiently.

Consumers are ultimately paying for the data distributors request, so it makes sense to explore an industry-wide and efficient solution. This will need to address privacy, security, and contestability concerns, which we support.

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<sup>7</sup> <https://www.tdb.co.nz/wp-content/uploads/2018/09/Efficiency-Gains-from-EDB-Amalgamation.pdf>

*22. What are your views on the assessment of the allocation of distribution costs?*

The analysis covers 'some' distributors – Powerco is not one of them. This is because Powerco's pricing methodology categorises customers by their connected capacity - this is the nature of the service that we deliver. For a given capacity our costs do not vary whether that customer is a household or a local dairy. This approach ensures that customers with the same connection requirements pay the same amount towards network costs.

In terms of urban/rural issues, where distributors are required under legislation to provide a lines service, there will be cases where it's cost effective to use cheaper alternatives than the existing infrastructure. If this is the cheapest option that maintains safety and security requirements, then regulation should support it. This issue is also under scrutiny in Australia where the ACCC has called for immediate action to get stand-alone power systems rolled out<sup>8</sup>.

*23. What are your views on the assessment of challenges facing electricity distribution?*

We are committed to making our distribution network available as an open-access platform to which customers can connect (within safe bounds) any devices they require, or over which they can transact with others as they see fit.

We support the principles of open access and a level playing field, noting that these must align with our obligations to maintain a safe network. In that context, the network owner is best placed to specify access terms. Open access arrangements exist today. The Commerce Commission's recent work around related party arrangements is an example of regulations evolving to ensure a level playing field and applied proportionately. The Commission's role to ensure distributors invest efficiently is a relevant consideration, including any incentives that distributors face around operational and capital expenditure. Again, the regulatory arrangements can evolve to manage this.

As a monopoly delivering this platform service, transparency about our investment decision-making process is important. Our asset management plan (AMP) describes our network and the challenges we face to meet consumer demand. We aim to be transparent about our investment drivers, the options to resolve constraints, and preferred solutions (network and non-network). Feedback from recent stakeholder engagement is that this type of transparency is important to them and aligns with some of the concerns raised in this report about distributor investments.

This open access is a two-way street. Data sharing protocols and capabilities across all market participants need to evolve. As a network distribution business, we need to understand consumer behaviour and preferences to ensure we can plan and operate our network efficiently. This is another reason to have access to smart meter data along with improved visibility of the low voltage parts of our network. It means we can meet the safety and reliability needs of our customers both now and in the future. And do it at an efficient cost.

Looking further ahead, we agree there may be a role for distribution system operators in New Zealand.

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<sup>8</sup> A useful summary is here: <https://www.energynetworks.com.au/news/energy-insider/edge-grid-end-line>

## Summary of feedback on Part four

24. Please summarise your key points on Part four.

Our key points to Part four responses are

- We have no evidence of inefficiencies caused by the current arrangements for retailers to reflect distribution prices in retail prices.
- We support open access distribution networks that provide a stable network platform where this has benefits for end consumers. This may involve a role as distribution system operators.
- There are options to evolve the regulatory regime to address concerns about transparency and confidence in the activities and costs of regulated distributors.

## Solutions to issues and concerns raised in Part four

25. Please briefly describe any potential solutions to the issues and concerns raised in Part four.

The list below reflects solutions raised in earlier responses to Section 4.

- Transparency measures/activities to address material concerns around confidence
- Move all large distributors on to an individualised price/quality path regime and small distributors to a default price path regime
- Market testing of major investments by distributors.
- Benchmarking studies to demonstrate and explore the reasons for cost variations in conjunction with quality, customer service, and governance.
- Fine tuning the legislation around provision of the regulated distribution service using new technologies

## Part five: Technology and regulation

### Technology

26. *What are your views on the assessment of the impact of technology on consumers and the electricity industry?*

The assessment is a good summary of the various issues and drivers.

For distributors, assessing the impacts of behavior changes from new technology uptake requires an increase in monitoring of the network at a more granular scale. It also heightens the need for distributors to understand the behaviour patterns of consumers.

Visibility of relevant customer data (current and forecast) will increase in importance for us as we seek to run our network efficiently now and in the future. Adding more providers of functions and services will emphasise the need for cohesive system operation, and the consistency of, access to, security of, and storage of data.

A real-world example of how new technology may help Powerco is a trial using Lidar and pole-top photography technology. The goal is to improve our defect and condition assessment process and vegetation management by improving data quality and reducing ground-based assessments.

More generally, distributors will need to undertake research and development (including trials) to test how new technologies can support delivery of the regulated network service. This aligns with the push from Government to increase R&D<sup>9</sup> and will intensify if decarbonisation efforts drive change on to distributors eg from increased distributed generation and electrification of the economy. There may be a role for regulatory involvement in this area to maximise the chance of realising efficiency benefits across *all* consumers (via distributors). What this looks like (eg incentives, competitive R&D investment pool) is unclear – what is clear is that a holistic and consistent view from policy makers is needed sooner rather than later.

27. *What are your views on the assessment of the impact of technology on pricing mechanisms and the fairness of prices?*

We agree with the assessment and it is part of the driver for price reform.

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<sup>9</sup> <https://www.budget.govt.nz/budget/2018/releases/r28-la-woods-research-and-development-key-to-build.htm>

*28. What are your views on how emerging technology will affect security of supply, resilience and prices?*

We agree with the assessment of the issues at play, and that the solutions are unclear. There has been a considerable amount of modelling and analysis done over the last few years on this topic in the context of decarbonisation. We think this will continue for some time because

- the costs and implications are enormous.
- There scope for efficiency gains from investment and technology change is wide and equally large.

This situation reinforces the need neutral policy settings that facilitate robust decision making by sector participants. This is echoed in the Commerce Commission's 8 June 2018 memo "where possible, we should avoid picking winners. This extends to technologies (inputs), input suppliers, and business models."

## Regulation

*29. What are your views on the assessment of the place of environmental sustainability and fairness in the regulatory system?*

Environmental sustainability and fairness are important objectives, but we would not support the re-insertion of fairness and environmental sustainability into the EA's objectives or their inclusion amongst the Commerce Commission's objectives.

- As noted in the report, fairness and environmental sustainability were objectives of the Electricity Commission between 2003 and 2010. The 2009 Ministerial Review found that the Commission's multiple and competing objectives spread the Commission too thin and led to poor performance. In our view re-inserting these objectives would be a backwards step.
- The Commerce Commission and EA's core competence is facilitating the efficient functioning of electricity markets. This is an important objective and the regulators' focus should not be diluted. Efficient markets complement rather than conflict with fairness and sustainability.
- Fairness and environmental sustainability can and should be the province of other regulatory frameworks and policy processes.

*30. What are your views on the assessment of low fixed charge tariff regulations?*

We agree that the low fixed charge tariff regulations should be re-examined to ensure that: (a) they are achieving their stated objective, and (b) that they do not unduly deter development of more efficient tariff structures.

Our view is that the regulations fail to achieve their objective for the reasons outlined in the report: low usage does not necessarily equate to energy hardship, and this divergence will only increase with greater uptake of consumer generation solutions such as solar.

From a practical perspective, they are barriers to innovation in distribution pricing, and cause duplication of effort (inefficiency).



31. *What are your views on the assessment of gaps or overlaps between the regulators?*

Scope of the regulators' fields of responsibility and regulatory discretion

- We are not aware of compelling evidence that changes would make a material impact on prices for consumers.
- The scope of the Commerce Commission's responsibility, and the degree of regulatory discretion with which it is invested is reasonably clear. We don't think there is any need to re-examine the Commission's responsibilities.
- In contrast, the EA's role and responsibilities, and the ambit of the regulatory discretion afforded by the Electricity Industry Act, are increasingly unclear, particularly as technology change is leading to the emergence of new services and business models that were not contemplated when the Act was passed in 2010.
- Our starting point is that the fundamentals of market structure (including matters such as the permitted scope of activities of different market participants) are addressed by the Act, and therefore are not within the scope of the EA's discretion.
- Fundamental policy questions relating to the structure of the market are properly a matter for Government and Parliament rather than the EA. The EA's role should be to ensure that the market structure mandated by Parliament functions as efficiently as possible. Given the transitional period we are currently in, we think it is up to Government to determine the appropriate policy settings and, if necessary, adjust the Act. The future structure of energy markets should not be purely a matter of regulatory discretion for the EA.

Access to consumption data

- The report outlines a concern regarding distributors accessing consumption data. The regulatory framework should not constrain access to data for network planning, pricing reform, and any other activities involved in providing the distribution service eg planned outages.
- Standards of and access to data will need to evolve to ensure network operation meets safety and reliability needs cost-effectively and maximise the opportunity for meaningful market signalling. This will affect the nature and scale of systems upgrades/investments by affected parties to manage the data. Smart meter penetration and functionality will affect the speed and scale of any benefits from initiatives relying on accurate and timely data.
- We support an open access model that allows a range of service providers, including distributors, to access consumption data in accordance with consumer preferences.

Participation in contestable services

- Powerco's objective is to provide a neutral platform over which contestable markets can transact and develop – without getting in the way or skewing the playing field. We support regulatory changes that facilitate this. However, we do not think it is necessary or desirable for distributors to be ring-fenced from providing contestable services. If those services can most efficiently be provided by distributors, then regulation should support that in the interests of consumers.
- Issues around discrimination and open access can be addressed through regulation, as they have in other contexts (for example, the regulation of distributed generation). The Commerce Commission is already taking steps to ensure that distributors do not inappropriately utilise the regulated asset base to fund unregulated services<sup>10</sup> and changes to requirements on auditors and distributors around related party transactions<sup>11</sup>.

<sup>10</sup> <https://comcom.govt.nz/news-and-media/media-releases/2018/electricity-lines-companies-disclose-their-investments-in-emerging-tech>

<sup>11</sup> <https://comcom.govt.nz/regulated-industries/input-methodologies/projects/201516-im-review/process-and-consultation/related-party-transactions-provisions>

*32. What are your views on the assessment of whether the regulatory framework and regulators' workplans enable new technologies and business models to emerge?*

- We agree with the assessment that there are no gaps or overlaps that would justify material change to the EA and Commerce Commission functions.
- Powerco's objective is to provide a neutral platform over which contestable markets can transact and develop. We support the EA's work to ensure equal access to distribution networks to facilitate this where material inefficiencies have been demonstrated.
- There is a role for regulation in facilitating development of the market, but we should not 'jump the gun'. The starting point is understanding consumer preferences, and market participants have a role in drawing out those preferences through innovation and experimentation (which is currently happening).
- We therefore support regulatory change that responds to consumer preferences rather than anticipates them. It shouldn't be the EA's or Commission's role to pick winners and losers in the market (echoed by the Commerce Commission's 8 June 2018 memo to the panel).
- For distributors, the IM review process and other tools available to the Commission presents an acceptable mechanism to evolve the regulatory framework.

*33. What are your views on the assessment of other matters for the regulatory framework?*

We agree that the process for embarking on a CPP is non-trivial. The reporting regime developed for Powerco's CPP reflects a step change in transparency that distributors ought to emulate for consumers of their network service. We agree that there is merit in considering the regulation applied to community owned distributors to confirm arrangements are in the best interests of consumers (as opposed to the owners).

We support the conclusion that the input methodologies are generally fit for purpose.

## Summary of feedback on Part five

34. *Please summarise your key points on Part five.*

- Technology uptake will affect the way the contestable and monopoly services operate.
- For distributors, having access to data is crucial to operating networks now and in the future. We support further consideration of an open-access framework for data.
- Understanding the link between consumer behaviour, technology capability, and pricing will be key to efficiently operating distribution networks. Removing the low fixed charge tariff regulations will support this outcome by allowing pricing innovation.
- We support the conclusion that the input methodologies are fit for purpose and regulatory framework arrangements are satisfactory. Options to address concerns about transparency and cost efficiency include moving large EDBs on to individualised price/quality paths and benchmarking studies.

## Solutions to issues and concerns raised in Part five

35. *Please briefly describe any potential solutions to the issues and concerns raised in Part five.*

The solutions raised in Part 4 are repeated here:

- Move all large distributors on to an individualised price/quality path regime
- Market testing of major investments by distributors (applied pragmatically)
- Benchmarking studies to demonstrate and explore material cost variations of distributors, in conjunction with quality, customer service, and governance
- Fine tuning the legislation relating to provision of network services using new technologies for consumers in remote areas

### **Additional information**

36. *Please briefly provide any additional information or comment you would like to include in your submission.*

We have nothing to add at this time.