



Submission to the Commerce Commission's open letter on fit-for-purpose regulation of energy networks



Every year more
customers connect
to our network

The future of networks is delivering value for

Consumers

Powerco supports the Commission's initiative to seek feedback about energy network regulation. There's no time like the present.

Our submission outlines priority issues that regulatory settings and their application will need to address across gas and electricity networks

There is a high degree of overlap. Providing an essential service in the face of policy uncertainty, evolving customer expectations, and technology change is a challenge for the regulator and the regulated

Clarity about the shared objective – ~~good~~ **great outcomes for consumers** – is the key. The onus is on all parties to demonstrate we're delivering it, and making sensible tradeoffs

Please contact Andrew Kerr (Andrew.kerr@powerco.co.nz) if you have any questions about our submission



Enabling customer choice

“The focus must be more on outcomes not process, on regulations that facilitate, not prescribe, and on how consumers consume, not on how businesses are organised “

Electricity Price Review, Final Report

“...in a way that does not compromise consumers receiving the energy services they demand, across reliable and resilient networks”

Commerce Commission, Open letter on network priorities

We support decarbonisation and therefore plan to avoid network constraints getting in the way of our customers. By doing this intelligently we should be able to avoid major network reinforcements. Currently, regulation does not support expenditure to enable open access networks the benefit to consumers is not immediate or certain. Spending to support customers' future needs *now* will not lower costs to customers *now*, nor will it improve the quality of service to customers *now*.

Emerging issues

- The reliance on electricity will increase as the scale and diversity of use increases: working from home, charging transport at home, or maybe connecting PV/battery at home. Emerging issue: investing ahead of the demand for open network capability to enable customer technology choices.
- Maintenance of the network with high quantities of distributed generation at customer level creates safety/cost issues when maintaining nearby lines. Aging customer service lines exacerbates the issue.
- Evolving network pricing and planning is contingent on access to detailed consumption data, along with establishment of systems and processes. Uncertain and fragmented access to data access will delay these initiatives, and the associated benefits to consumers.
- One of the advantages of having a shared gas or electricity network is the fixed costs are shared across a large customer base. If policy settings reduce connections, those who are left are the ones that less likely to be able to pay higher costs.

Possible regulatory considerations

- Review the approach to certainty to approve expenditure (IMs and reset decision processes) eg 'no regrets' activities to support DER integration
- Review quality measures for customers eg transition from simple duration and event measures to a 'value'-based measure that reflects customer needs
- Review regulatory approach to customer service lines in light of increased electrification and penetration of technology which can export to the network.
- Provide compliance guidelines on breaches of requirements so consumers and distributors have clarity about actions, outcomes, and consequences
- Consider regulatory settings that minimise the extent of future price shocks driven by legislated policy settings eg net-zero by 2050



Planning to meet policy outcomes

“Signalling longer term policy well in advance will support both public and private investment decisions in line with target outcomes”

CCC draft advice

“Climate change exists beyond the four-year horizon of the Public Finance Act. [We’re] working on a solution for that”

James Shaw

The approach to regulation of electricity and gas infrastructure will need to align with the objectives and timeframes of the Government and the Climate Change Commission *and* accommodate the uncertainty about when, where, and the scale of change.

Emerging issues

- The Climate Change Commission’s advice and budgets will drive step changes to the scale of demand for electricity. This will increase the demands on infrastructure and systems required to connect and transport it.
- An expectation that distributors can deliver just-in-time investment is mismatched with the practicalities of delivering infrastructure. It risks a just-too-late approach to planning (higher cost, more disruptions to implement).
- New Zealand’s emission budgets and associated policies extend well beyond the 5-year regulatory approval cycle for regulated entities. The pace and scale of change modelled by the Climate Change Commission will challenge the current regulatory approach which relies on the past to inform the future and sets a high threshold for deviating from it

Possible regulatory considerations

- Review the interaction between climate change objectives/policies and the purpose of promoting “...the long-term benefit of consumers” in the Commerce Act. Do climate objectives need to be explicitly recognised?
- Explore how the IMs and DPP reset align with EDBs being tasked with ‘planning to meet policy objectives and outcomes’ - these will be a key driver of our planning requirements
- Review how regulatory allowances accommodate forward-looking or new requirements that may not align with historic outcomes eg cyber-security, mitigating physical and transitional climate change risks, emission offsets, network monitoring, changes to supplier costs from social and climate policy, data acquisition from meter providers/retailers
- Tailoring allowances to accommodate the individual needs of distributors given non-uniform impacts of climate change policy and initiatives.
- Consider how policy uncertainty can be accounted for in director-certified forecasts



Innovation

“The phase-out of natural gas from our energy system is a complex issue and the Commission has made clear that it has a use-by-date in New Zealand. ...our current gas distribution infrastructure provides many opportunities for alternative lower emissions fuels to be used, including biogas and hydrogen. “
Megan Woods

The Commerce Commission should implement default price-quality regulations in a way that encourages innovation among distributors. An example is using demand-side management tools that encourage consumers to use less power, or use it at off-peak times, to alleviate network congestion
Electricity Price Review, Final Report

Innovation is an ill-defined term. It can be more helpful to focus on the types of decisions and opportunities that regulated companies are facing now and/or might need to make in the future.

Emerging issues

- Gas networks are facing the opportunity to repurpose from natural gas to other gasses at the same time as managing the impact of policy decisions about natural gas use.
- Increased use of electricity for vehicle transport, process heat, or working from home will increase the reliance on the electricity system over and above the status quo. Distributors will need to respond to this, whether it be investment in systems or in the network to manage increased resiliency needs (because the impacts of disruption will be magnified).
- Powerco's application for network evolution allowances were not approved by the Commission in its CPP determination. The market and policy environment has evolved significantly since then. There is perhaps more certainty now about the value, or indeed the need, for these initiatives, especially for networks that have scale.

Possible regulatory considerations

- Consider a sectoral definition or principle to guide regulatory treatment and approach to risk, funding, and outcomes
- Innovation allowances for gas networks to play their part in supporting policy outcomes related to low-carbon gasses.
- Review the approach for innovation allowances across EDBs to ensure there's no barrier to testing approaches to deliver to the Government's policy outcomes and minimises duplication
- Review arrangements and capability to obtain and maintain consumption data to support efficient pricing and planning in the face of technology changes
- Review the interaction of ring-fencing obligations with other mechanisms to ensure the 'sum of the parts' promotes competition and innovation



Incentives that reward the right decisions and outcomes ... and are workable too

“Connecting tens of thousands of DERs to a network may fundamentally alter the way the network has to operate and may greatly increase investment requirements. It is important that preparatory work starts soon so that networks are well prepared for the potential influx of DERs.”

Te Waihanga, He Tūāpapa ki te ora

“There are long lead times in energy infrastructure investment, and parties are making decisions right now that will impact the sector for decades to come.”
Electricity Authority

The package of regulatory settings needs to be examined to ensure distributors are making good investment decisions –probably means a balance between transparency of process and targeted financial incentives on the things that really matter

Emerging issues

- The desire for investment from policy makers is balanced by the uncertainty faced by investors – not just market and technology, but also Government policy intervention and treatment of key inputs to cost and revenue setting eg CPI. Asset lives are typically far longer than the economic horizon, so the only way to manage risk is via halting investment...contrary customer want
- The incentive scheme (IRIS) appears to create confusion rather than resolve it. For example, the Aurora CPP decision was complicated by including IRIS. And it doesn't apply to all distributors given some are exempt from regulation.
- Decisions from other regulators or policy makers can be NPV positive at a system-wide level for consumers, but may not have been considered when allowances were set or will be set. This can impact the quality of forecasts too.
- Decarbonisation of commercial and industrial load can bring forward planned investments. Yet these costs are included in the incentive regime and revenue isn't recognised within the period.

Possible regulatory considerations

- Include an accelerated depreciation facility for gas networks to improve alignment between economic life and utilisation (as seen in [Australia](#))
- A pragmatic approach for reopeners for material event, policy or regulatory driven costs for many/all networks
- Review approach to treatment of CPI to ensure symmetric outcomes in the long-run
- Review WACC settings to ensure assumptions workable and appropriate to NZ policy and market contexts for gas and electricity networks
- Review incentive mechanism to ensure opex/capex tradeoffs are meaningful and workable eg exclude customer-reactive capex to avoid creating arbitrary winners and losers from forecast errors, merit of a totex regime

