



ENERGY TRUSTS OF NEW ZEALAND INC.
P O Box 109626
Newmarket
Auckland 1149
Phone: (09) 978 7673
www.etnz.org.nz

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Keston Ruxton
Manager, Market Assessment and Dairy, Regulation Branch
Commerce Commission - via regulation.branch@comcom.govt.nz

Response to Commission's Open letter on proposed scope, timing and focus for the review of input methodologies

As the organisation representing consumer and community owners of EDBs, the Energy Trusts Association (ETNZ) has both an asset owner and a consumer perspective in addressing this topic.

Consumer issues

Consumers have become increasingly reliant on distributed electricity since the early days of reticulated supply, and - regardless of the potential impacts of transformative technologies such as commercialised electro-voltatics - so far there is little to suggest that distribution assets will cease to be used and useful in the future. A range of future demand scenarios can be developed on the basis of current knowledge. For example, we may see retailers respond to the emergence of PVs by offering new pricing arrangements that promote solar water heating while sustaining the demand for electricity in other applications. Or we may see the rapid emergence of new domestic loads as EVs and new appliances appear and as the trend towards working from home intensifies.

We are aware of the view being put forward by MEUG highlighting a possible collapse in electricity demand due to the impacts of DG but, while we recognise this as a possibility, we strongly doubt that it is a representative consumer view. In general, our perspective is that most consumers envisage a future where they have secure access to reliable electricity supply and enjoy increasing leisure as labour saving electrical devices emerge.

We would expect informed consumers to be sceptical of any abrupt regulatory or legislative intervention based on the MEUG 'demand collapse' scenario. NZ, like other countries, has had a relatively recent history of misguided legislative or regulatory interventions based on expectations of changes in the commercial environment that later proved wrong. Examples are the government of the day's *dairy beef conversion* scheme of the 1970s, the subsidised synthetic gasoline and

substitute fuel initiatives in the 1980s, and - in the electricity industry - a number of economically distortionary recent interventions such as the remote user cross subsidy, the low user fixed charge regime and the decision to indefinitely extend the obligation to supply via lines services.

Especially since the line/energy split of 1998, we recognise that consumers in many parts of the country tend to take their electricity distribution services for granted and to be more focussed on the apparent increase in the real price of delivered energy that has occurred since then. However, a core ETNZ role is to ensure that the requirements of future as well as present consumers are able to be met. We are very aware of the pressures facing other key infrastructure providers due to inadequate investment, and we are also conscious that many distributors have assets that were put in place in the 1950s and '60s and are due for renewal. Accordingly, as consumer representatives we recommend that the Commission maintains a consistent approach that encourages maintenance and renewal of existing assets, and does not put the needs of future electricity consumers in jeopardy.

Asset owner issues

Consumers are also asset owners in a number of cases, as are communities. In ETNZ's view there is a de facto regulatory compact with asset owners implicit in the Part 4 arrangements, where the Commission recognises the reality that consumers are reliant on, and expect, a stable first world level of electricity supply, and also recognises that distributors are obliged to provide and maintain that service for existing and future consumers. The Act is explicit on this, requiring the Commission to build its regulatory regime on stable IMs that give asset owners sufficient certainty to continue to invest in EDBs. The Act also gives the Commission scope to encourage asset owners to make parallel investments to promote energy efficiency etc. (s54Q) and to also make innovative investments that are consistent with the Purpose Statement. Notably, while the Act specifically tasks the Commission with supporting and incentivising investment, it is silent on regulatory interventions that have the effect of suppressing investment.

In ETNZ's view it was Parliament's clear intention to create a regulatory regime that resulted in a solid, quality-focussed electricity distribution industry that embraced new technologies, created scope to achieve the various objectives of s54Q, and - short of a legislative change - based this regime on consistent IMs that were not subject to ad hoc review, and that were designed to ensure that distributors delivered a high quality service without engaging in unreasonable profit taking.

It would be inconsistent with the objectives of the Act to undertake a review of the IMs that departed from the current regulatory compact. In our view, if it is to evaluate the IMs in their legislative context, a primary focus of the forthcoming review should be on addressing those areas where the Commission has either not achieved, or been too slow in achieving, the outcomes required by the Act. Here the very limited progress made in delivering the investment incentives required by

s54Q stands out, in contrast with the alacrity with which the Commission moved to diminish the investment incentives provided by its original WACC determination.

As asset owners, ETNZ will also be seeking a rounded review process that considers that full mix of IMs as an integrated package, rather than treating one or two individually. While we would not expect the review to take an exhaustive approach to those IMs that are less relevant to investors (e.g. regulatory taxation weightings) we would expect it to maintain a focus on the overall outcome to ensure that unforeseen impacts are minimised, and to give investors confidence that the regime will not drift further towards ad hoc interventions.

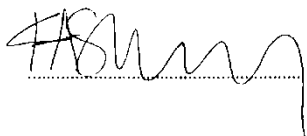
Scope of the review

If, as some parties are suggesting, the review be widened to consider the IMs in their context, we would support it including an independent overview of the effectiveness of the current regulatory regime in achieving the objectives of the Act. We would recommend that such an overview look specifically at the following issues:

- Whether or not an appropriate balance between effectiveness and complexity is being achieved;
- Whether those parts of the Act that specifically give the Commission a 'must do' requirement have been adhered to adequately;
- Whether or not investor confidence has been reduced significantly by, for example, the WACC 75th percentile intervention, and the application of the CPP process.

We appreciate the Commission providing this early opportunity to make suggestions on the IM review, and look forward to further opportunities to submit as the review takes place.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Sherry', written over a horizontal dotted line.

Karen Sherry
Chair