

4 September 2015

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Dear Keston

**Input Methodologies Review: Cross-submission on invitation to contribute to problem definition**

Mighty River Power notes the broad support among respondents for the Commission to investigate the future impact of emerging technologies. We also support this view and look forward to engaging with the Commission on its further investigation.

Some submissions have called for more flexible allocation methodologies due to a perceived blurring between competitive and monopoly elements of the supply chain enabled by distributed generation and storage technologies.

Our contrasting view is that providing greater flexibility potential runs the risk of restricting competition for the provision of such technologies by providing a regulated cost advantage which is not in the long term interests of consumers.

This points to the need for more robust tests and allocation requirement to ensure that only appropriate assets are included in the regulated asset base of electricity distribution businesses (EBD).

We consider such tests should take into account the nature of the service provided and only allow for regulated revenue on a like-for-like basis. If an EDB earns revenue from a regulated asset through involvement in competitive markets, the regulatory rules must have the effect of reducing the regulated revenue the EDB would otherwise earn from that asset by the sum of the competitive revenue earned.

Commercial scale battery storage provides a relevant example. While such storage may be able to provide a like-for-like reduction in peak demand, compared to a traditional network investment, it will likely have a much shorter asset life. This will reduce the risk to an EBD of asset stranding but potentially increase costs to consumers in the long run in the event that multiple battery replacements are required and the investment in a network asset would have been lower cost.

Further a network asset investment would have no ability to earn unregulated revenue and would only be required to meet peak demand in a limited number of demand periods throughout the year. In comparison the capacity provided by battery storage will be continually available to be utilised to earn unregulated revenue via arbitraging the off-peak to peak price differential in the wholesale electricity market. The incentive to maximise the revenue from battery assets could also potentially reduce the asset life, the risk and costs of which would be borne by consumers.

In the instance where the costs of the battery storage fall under regulated asset base the EBD has a regulated cost advantage over merchant providers who have to cover the capital costs of any storage through any market revenue. Further, another consideration for the Commission is the impact of more efficient demand-side response that may be curtailed due to subsidised battery storage.

### Risk allocation

Some submitters support proposals that are likely to change the current allocation of risk in the IMs. For example:

- Vector and PowerCo suggest that recovery of costs should be brought forward with accelerated depreciation and changes to indexation,
- A number of submitters favour the ability to re-open price paths, and
- Wellington Electricity Lines submits that the Commission should change the form of control from the weighted average price cap to a 'pure' revenue cap.

We understand that, if implemented, these proposals could have the effect of:

- Reallocating the risk of lower than forecast demand (e.g. from the emergence of disruptive technologies or changes in consumer behaviour), or other unexpected change events, from EDBs to consumers,
- Reallocating the risk that EDBs will not be able to recover their investments over the full lives of the assets from EDBs to consumers, and
- Transferring wealth from current to future consumers.

As a retailer, which holds the relationship with the customer and is required to explain any changes to, or volatility in, pricing, such changes require careful consider and should only be made if they clearly promote the long-term benefit of consumers.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Nick Wilson', written over a horizontal line.

Nick Wilson

**Manager Regulatory and Government Affairs**