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Keston Ruxton
Manager, Input Methodologies Review
Regulation Branch
im.review@comcom.govt.nz

Input methodologies review - Cross Submission

Topic paper 3: The future impact of emerging technologies in the energy sector

Mercury welcomes the opportunity to provide a cross submission to the release by the Commerce Commission on submissions received to its Input Methodologies review.

Mercury is an electricity generator and retailer providing energy services to homes, businesses and industrial customers throughout New Zealand. We have a long heritage in renewable energy in New Zealand serving about 1-in-5 homes and businesses under the Mercury brand and other specialty brands. We also have proven capability and technical expertise in smart metering services and solar. Our goal is to be the leading energy brand in New Zealand, inspiring our customers, owners and partners by delivering value, innovation and outstanding experiences.

Mercury has reviewed the relevant submissions and no argument put forward has caused any fundamental shift in our view. We maintain our position that the best outcome for consumers is that emerging technologies are delivered via competitive markets, with regulation only considered where competition is unlikely to emerge.

Mercury supports the view of a number of submitters and the Commission that any structural approach of regulating assets should be considered at a policy level. We endorse the proposal put forward in the Electricity Retailers Association of New Zealand (ERANZ) submission to determine which assets/services should be included as regulated services. We also support the view that it is critical that this issue is addressed and resolved now before significant investments are undertaken in emerging technologies.

As has been indicated by a number of submissions received through the Commission's consultation process, there has been clear signals from not only retailers, but a variety of EDB's, that competition will develop and is likely to deliver a range of solutions to customers. This is consistent to the view taken by a number of international regulators, as outlined in the ERANZ submission. From the submissions Mercury reviewed, it is therefore clear that applying regulation to emerging technologies where competition exists is likely to result in inefficient outcomes for these consumers and a reduction in the long term quality of services they receive. It will also reduce competition from parties who will not be able to access the safety net of a regulated asset base and therefore restrict the overall options available to consumers.

As indicated by various submitters, batteries are only one solution to perceived issues within individual networks. Without appropriate controls at this initial juncture, "early adopter" investment in first or second generation technology is more likely to result in rapidly dated technology. Further, the concerns of asset stranding may only be held by a subset of Networks, with others focused on increased commercial opportunities.

Mercury notes that a number of submitters have commented on ERANZ putting forward unsubstantiated positions to the negative consumer impacts. However as battery storage is an emerging technology with a number of different prices and features, it is also apparent that there is no hard evidence as to how these technologies may provide a long term advantage to consumers. Only a small number of EDB's are in initial trial stage with reliability and cost effectiveness yet to be tested.

It is also clear that the general view from submitters, including many with EDB interests, is that the currently light handed approach to ensuring the most efficient investment is undertaken by an EDB is highly opaque may not be leading to the best outcomes for consumers. This is highlighted by the submission from Asplundh which provides an insight to a potential

lack of competitive tendering inherent within the provision of vegetation management services in the EBD sector resulting in higher than necessary costs to consumers. Tendering is widely acknowledged as an important way of ensuring efficient costs and is also seen as best practice. However, the current incentives under the regulatory framework appear to be discouraging this practice and reducing competition in the provision of vegetation management services. Our concerns are that if the similar regulation is applied to battery storage the outcomes will be the same for consumers.

Mercury supports that storage is a key platform in supporting the optimal performance of a network, however if the cost of this specific optimisation is brought into RAB, it could be seen that EDB's are effectively double dipping on their cost recovery consumers will pay for the optimisation service a battery provides, as well as any other services that the network provides.

Mercury would also like to highlight to the commission the Australian Energy Regulators (AER) recently released ring-fencing draft paper where the AER is looking to not stifle competition, but to eliminate one party's unfair advantage over another.

The AER further states that consumers need to be protected from cross subsidies that may "*undermine the efficient costs of regulated services provided by DNSPs*" and is concerned at the EDB's ability to discriminate in its own favour by its ability to "*provide non-regulated services and possibly gain an advantage over other service providers through its provision of regulated services*"¹

In conclusion, Mercury's position can be summed up by Richard Owens, Senior Director of the Australian Energy Market Commission, recent comments in addressing the Energy Networks Association (Australia):

*"Whenever possible, we start from the premise that the best judges of what's in consumers' interests are consumers themselves. And where there are barriers or constraints to consumers exercising their choices, our preference is to address those barriers to choice rather than use regulatory instruments to impose technology-based solutions on consumers. Importantly, we do not try to pick winners."*²

Please contact me on 09 580 3623 or nick.wilson@mercury.co.nz with any questions on the above.

Yours Sincerely,



Nick Wilson

Manager Regulatory and Government Affairs

¹ https://www.aer.gov.au/system/files/Draft%20Ring-Fencing%20Guideline%20-%20Explanatory%20Statement_0.docx pg 1

² <http://www.aemc.gov.au/News-Center/What-s-New/Speech-Documents/ENA-Regulation-Seminar-3-August-2016.aspx> pg 1-2

