9 August 2023

Via email IM.Review@comcom.govt.nz

Tēnā koe,

Cross-submission on IM Review Draft Decision

The 2023 Input Methodologies decision will guide how gas and electricity networks invest and operate to the early 2030s – potentially to 2035 for electricity networks. We have enjoyed reviewing submissions from stakeholders, particularly those who we provide services to directly, or indirectly. Our summary views on submissions made on the Draft IM Decision are attached.

If you have any questions regarding this submission or would like to talk further on the points we have raised, please contact Andrew Kerr ([redacted]).

Nāku noa, nā,

[redacted]

Andrew Kerr
Head of Policy, Regulation, and Markets
POWERCO

Comments on submissions

Large Customer Contracts	• Submissions include a range of good ideas and questions about how the approach might work in practice. Some concerns about the concept combine issues of cost levels, incentives, re-openers, and connection process/options. This is an understandable outcome when parties with different degrees of knowledge and experience are assessing an option from different perspectives. • Having assessed these, our view remains that value of the LCC is how it can work as a virtual reopener, allowing customer's and networks to act with pace. We agree that transparency of costs and process are important – these apply whether regulated or not. The concern is not a reason to delay customer action. • The issues raised by submitters highlight challenges which apply to all EDBs, not necessarily those subject to IMs, or the IMs themselves. For example, it is not clear in the example quoted from Contact Energy (para 17) about bypass whether that is from an exempt or non-exempt EDB. • Several retailers have expressed concerns about EDBs leveraging their bargaining power during negotiations of large connection contracts with customers. They have proposed that the Commission should either abandon the LCC proposal altogether or, if the proposal is pursued, incorporate mechanisms that restrict EDBs' bargaining power. The Commission has already introduced clauses in the Draft Input Methodologies Determination aimed at addressing monopoly bargaining power in the context of LCC negotiations. To provide enhanced safeguards for customers, we propose that EDBs must inform customers that the LCC is optional and that they can stick with the current approach for new connections if they wish. • There is value in clarifying what a "new service" is. One example is a "new or unforeseen upgrade" which intuitively aligns with the definition.
Annual price change limits	• Contact's submission proposes the extension of annual price change limits to encompass the initial year (i.e., including price adjustments between regulatory periods) and all pass-through and recoverable costs. • We disagree with this proposal, though understand its initial appeal. Frontier Economics' submission on behalf of Vector highlighted the potential conflict between a 10% cap on annual price increases and the necessary price escalation to generate allowable revenues capable of adequately supporting the required degree of investment in decarbonisation projects.[1] Our apprehension of a constraint stems from the potential exacerbation of current financeability challenges that could result from broadening the annual limit's scope. A financeability test is one tool to reveal the alignment between allowances for (rapid) investment and ability to fund it (including the impact of price change limits, if any). • If an annual price limit is maintained, one option is to set it at a **very high level** to genuinely limit annual changes of an outlier nature (similar to how major event days are handled for quality standards). This would minimise *regulatory-driven* changes year to year, while ensuring distributors could manage price changes within and across regulatory periods without distortion.
Price communications	• Meridian's submission suggests that the Commission should consider its role in communicating price increases to consumers. We support this viewpoint, particularly where judgements have been made eg approve/not approve expenditure.

[1] Frontier Economics submission for Vector, page 24: https://comcom.govt.nz/__data/assets/pdf_file/0023/323168/Vector-Frontier-Economics-Regulatory-financeability-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf

	• A lifted Commission role across all infrastructure would enhance transparency, promote understanding, and contribute to the knowledge base of the value and role of infrastructure and its regulation across the economy. This would support the important role of infrastructure, and investment in it, in the context of costs for essential services like groceries and transport as MEUG comment on in their submission (para 8). • MEUG (para 11) and Mercury (p3) note the impact of affordability of energy supply – WACC and other IM settings affect cost to customers and businesses. Energy infrastructure costs can contribute to affordability for customers. Rather than attempt to attribute this impact to WACC, or any other regulatory setting in the IMs, a better approach is to address the issue directly. Initiatives at a national level eg the energy hardship expert panel and reference group[2] or by industry eg Energymate[3] can be targeted to those in need and by those best placed to provide support.
Cost of capital settings	• Most submitters agree the appropriate WACC percentile and WACC calculation should be principled, objective and based on justifiable empirical evidence. We agree. For example, Firstgas submit "*Making changes without new supporting evidence undermines predictability and stability*". MEUG welcomed "*the proposed changes to the WACC parameters to incorporate the latest empirical evidence and to reflect the current regulatory environment facing EDBs and their customers…*" • More than just the costs of outages should be considered when determining the appropriate WACC percentile with submitters highlighting the role EDBs and GPBs will play in the energy transition and decarbonisation[4], they will play a large role in realizing New Zealand's emissions targets. Where outages *are* considered, Vector presents evidence that the probability of major outages occurring is likely not lower than 2014 and could be increasing. They submit "*Any customer who lived through the last four months might rightly query how anyone could reasonably believe the expected costs and/or likelihood of outages have fallen.*" • Many submitters and experts have concerns about the selective exclusion of COVID-19 data in comparator samples. Our read of Dr Martin Lally's commentary on asset betas for airports is that the Covid-19 period shouldn't be treated differently ie "… the merits of applying such treatment to selected events are contentious". • There is support eg Chorus for the trailing average approach to determining the risk-free rate because it provides more stable and commercially realistic estimates. Gas • The Frontier Economics "Response to MGUG submission" on behalf of the Gas3 group responds to the MGUG submission points. In particular, the Commission and the AER have both recognised that stranding risk and accelerated depreciation should be managed using ex ante FCM, with action taken early to avoid price shocks and updated as new information becomes available. MGUG's submission presented no new evidence in regard to the economic life of gas networks, rather it will be primarily determined by government policy.

[2] https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-hardship/energy-hardship-expert-panel-and-reference-group/

[3] https://www.energymate.nz/

[4] For example MEUG para 7, Mercury (page 1, page 2).

Process and approach	• Submitters comment on the process for setting cost of capital in particular, with ENA noting frustration with the process and lack of engagement with the Commission's views before the draft decision – with a preference for concurrent expert advice sessions like in previous years rather than an expensive exchange of letters by consultants. A longer time frame for considering these complex issues would have been preferable give the impact these settings will have on the next 7-10 years of resets. • Harbour Asset Management observe "*that the 14 June publications are inaccessible to large tracts of society. They span over a thousand pages and are difficult to navigate, frequently referencing other sections*". The IM review is a difficult entry point for any stakeholder. We recommend the Commission consider briefing sessions ahead of, and early on, in any significant decisions to help make decisions accessible and navigable.