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Dear Mr Gunnell

Feedback on the process for resetting price-quality paths

Wellington Electricity Lines Limited (WELL) welcomes the opportunity to respond to the Commerce Commission's (Commissions) open letter "Feedback on processes for resetting price-quality paths" dated 8 June 2020. WELL's letter provides feedback on five subjects:

1. Process timeline and steps
2. Workshops
3. Models
4. Stakeholder engagement
5. Regulatory flexibility

1. Process timeline and steps

WELL thought the process was good for re-calculating the price path and for making minor refinements. The use of the issues paper consultation provided a good medium for focusing the later draft decision on the key issues. The combination of the issues paper, draft decision and the ability to cross submit allowed the Commission multiple opportunities to refine a decision using stakeholder feedback. WELL believes this resulted in balanced and robust decisions for refinements to the DPP price-quality path.

The key area of process improvement is providing the time and resources, for both the Commission and stakeholders, for more significant issues and/or changes. WELL believes that the current process did not provide the time and process steps to identify, develop solutions and debate the most appropriate responses to more complex issues. This has resulted in residual issues which WELL believes are yet to be resolved (e.g. a meaningful innovation incentive and confidence that the

quality framework accurately identifies the deterioration of a networks reliability performance) and some final mechanisms that Electricity Distribution Businesses (EDBs) did not have the opportunity to provide feedback on (e.g. the revised quality normalisation model and the new growth capex gate).

WELL believes that an initial engagement with stakeholders (potentially soon while the DPP3 is still fresh in stakeholder minds) to highlight areas of improvement would identify the issues that need more time to resolve. Solutions to these issues could be developed in advance of the price-quality path setting process. A draft solution could then be refined using the current process of issues paper, draft decision and final decision.

2. Workshops

To develop draft decisions in advance of the DPP4 process, WELL suggests using industry working groups to develop options and then workshops with the Commission to refine those options. WELL commends the Commission for the two works shops it did hold for the DPP3 but believes they were too large to allow the co-ordinated development of solutions and to then debate the pros and cons. WELL believes the DPP3 workshops were useful to answer stakeholder questions and to clarify the draft decisions but were the wrong format for more in-depth discussions. As alternative, WELL suggest workshops with representatives from each stakeholder group. A smaller number of participates will allow a more interactive discussion.

3. Models

The Commissions price-path models provided useful tools for EDBs to test the reason paper assumptions and to develop a deeper understanding of the mechanisms behind the Commission's decisions. WELL has found the financial models to be very useful to validate WELL's own regulatory monitoring and management models.

However, WELL was disappointed that the reliability models were not in an easily accessible format. The new reliability data normalisation process was one of the most significant changes to the DPP3 and EDBs could not easily verify the Commissions workings or gain an in-depth understanding on how they operate. The results of the Commissions model for the draft decision also seemed to be different from our own modelling – the results appeared to understate the impact on an EDBs quality performance when historic data was applied to the proposed normalisation method.

WELL requests that the Commission provide the quality modelling in an accessible format for DPP4.

4. Stakeholder engagement

WELL welcomed the wider stakeholder's feedback into the process. The alternative views helped ensure the feedback wasn't siloed to just the EDBs immediate needs and helped remind participants in the consultation of the wider stakeholder requirements. The challenge for EDBs and the Commission will be to increase direct consumer representation in the future. This will be especially important as services change with new technology, the implementation of Government's de-carbonisation initiatives and changing consumer demand.

WELL also believes that direct consumer input is needed if changes to the price-quality trade-off are being considered. As provided in WELL's draft decision submission, the changes in planned SAIDI and SAIFI targets and the associated realignment of live work practices with live/de-energised decision making tools will mean EDBs will need to invest in temporary generation to maintain supply and avoid quality breaches. The changes to the quality targets are pressuring EDBs to improve quality despite customers being comfortable with current levels of reliability - more importantly, for many customers a change to the level of reliability could be unaffordable. This is occurring at a time when allowances are under pressure from greater business as usual costs. Increasing quality without increasing price is not sustainable - especially if customers do not want either to increase.

Increased consumer participation is likely to be even more important for DPP4 as the industry considers expanding on the reliability measures. If the low voltage network is included in the reliability framework, investment will be required to allow EDBs to monitor and manage the assets on the low voltage network which at present are largely unmonitored. Consumer input will be essential in deciding whether to proceed with the additional investment, supply standards and quality measures.

5. Regulatory flexibility

WELL is concerned about the rigidity of the regulatory framework and that the DPP price-quality paths will not meet the increasing sophistication of the end –consumer in seeking new services for behind the meter technology. WELL believes that the five year DPP review period is too long and that the price-quality path may get out-of-step with what consumers want over that time. As consumers move to a more sustainable future where fossil fuel is replaced by renewable electricity, the industry will need the price-quality path to change to reflect new requirements to manage demand increases and refined quality expectations.

WELL believes that increasing the ability for “within-period” adjustments would increase the price-quality paths ability to flex with the changes in consumer demand and segmentation. It would also reduce the industries reliance on the DPP process to predict what resources are needed to meet consumer demand over the next five years. WELL was pleased with the introduction of the growth reopener as it acknowledges that the price path is required to flex when unexpected consumer growth occurs. WELL would like the Commission to consider other ways of providing the regulatory framework with more flexibility. This could include:

- A new regulatory framework for medium size, non-business-as-usual investments not captured by the DPP framework and are cost prohibitive under the Customised Price Path (CPP) framework.
- A new reopener to capture non-BAU network investment needed to support the introduction of new network support services. This could include an investment in monitoring the performance of a high growth area of the low voltage network experiencing a change in customer demand behaviour. It could also be used to establish a platform to purchase demand response services from customers (DER) through their retailer or aggregator as a more economic solution to further network capacity investment.
- A reopener to capture new operating costs. The current backwards looking mechanism for calculating operating allowances cannot adjust to new costs. Known cost increases like increasing insurance premiums have already been missed from the operating cost base. Further costs will be missed in the future as EDBs consider ‘non-wire’ solutions as an alternative to capital expenditure. The likely increase in consumer demand for distributed energy resources may require an increased focus on higher maintenance of an active rather than passive low voltage network. This will require new allowances that the current mechanism will not capture.

WELL is excited about the opportunities that decarbonisation initiatives, access to electric vehicle batteries on the networks and increasing customer adoption of distributed energy resources will offer EDBs. WELL believes that it is essential that the regulatory model adapts so that it can support EDBs to deliver the new demand.

6. Closing

WELL appreciates the opportunity to provide feedback on the DPP3 process. Many of the ideas will also be relevant to the upcoming IM review. If you have any questions or there are aspects you would like to discuss, please don't hesitate to contact Scott Scrimgeour, Commercial and Regulatory Manager, at sscrimgeour@welectricity.co.nz.

Yours sincerely

A handwritten signature in black ink, appearing to read "G Skelton". The signature is fluid and cursive, with a long horizontal stroke at the end.

Greg Skelton

Chief Executive Officer