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Submission on *Levy Consultations 2020* discussion document

ETNZ - The Energy Trusts Association - represents the trust owners of electricity distribution businesses throughout New Zealand.

As the organisation representing consumer and community owners of EDBs, ETNZ has both an asset owner and a consumer perspective in making this submission.

Our address for service is

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Our position summarised

While we acknowledge the sensible and progressive effort the Commission has been making to develop workstreams and approaches that assist and empower consumers, and that also assist electricity distributors and asset owners, we believe that countervailing savings should be considered to reduce the size of the levy proposed increases. It would also be useful to focus on reducing compliance costs.

In addition, we would like to see some degree of benchmarking (a) against price changes that the Commission is allowing for the EDBs it regulates, and (b) against actual price changes accepted for other regulators. We recognise that such benchmarking would only be indicative but it would help in understanding the degree to which regulatory costs might be controlled.

Responses to the Commission's consultation questions

We are focusing only on questions '1' and '8' in this response. We either agree with or have no comment on the other questions.

Question 1. Purpose and objectives of the consultation paper

A preliminary consultation with the industry and its customers on the objectives and priorities of the proposed work would have been helpful.

We appreciate the effort that the Commission has put into identifying the direct costs incurred by various overseas regulators. However, this would be more relevant to the purposes of this exercise if it included data on proposed or agreed cost changes for the year ahead.

Question 8. Is the additional funding being sought appropriate?

In responding to this query our primary need is to understand why the Commission's rising cost pressures are different from, in particular, those facing the electricity distribution businesses owned by our members.

We note a number of comments in the paper that link expected Commission regulatory cost rises to situations now facing EDBs (and having to be managed with far tighter budgeting), e.g.

> 49.3 Energy security, and network reliability in particular, could become more challenging in a future where more decentralised and renewable generation enters the generation mix, and the electrification of the economy accelerates.
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> 53. Electricity networks are grappling with how to best manage long-lived assets built many decades ago. Effective asset stewardship of aging networks has become even more complicated in a changing environment of new technologies … and changing customer preferences ….
>
> 54. The Aurora Energy network … illustrates the importance of sound asset stewardship….
>
> 57. Technology, new services and business models, and consumer preferences, continue to evolve. This presents opportunities and risks for both network businesses and consumers.

79. Electricity distributors have to deal with an ever-increasing range of complex issues, including those related to new technologies, energy affordability, cybersecurity, health and safety, climate change and decarbonisation, often involving diverse stakeholder views. In particular, distributors are grappling with how to best manage long-lived assets built many decades ago, while taking into account the opportunities and risks associated with emerging technologies.

We would appreciate being given more confidence that the Commission will apply the same level of rigor to its own costs that it expects EDBs to apply to theirs. The proposed 41% annual increase in Part 4 administration and programme implementation is completely out of phase with the revenue changes imposed on regulated EDBs.

As well, the proposed additional expenditure, over 2 years, of $8 million on the review of Input Methodologies appears questionable. In past IM reviews we have witnessed approaches such as arcane (and expensive) debates between accountancy professors over subjective issues relating to WACC, along with exacting consultations over supposed incentive arrangements that have proved of little value. In our view it is very hard to justify an $8 million bill to electricity consumers (as well as the further IM review costs to be imposed on consumers of other regulated services) without looking now for much cheaper options.

If the Commission is to proceed with its 'bridging the gap' approach, then a determined effort to find countervailing savings from other Commission activities would appear very justifiable. In looking for such savings it would be useful to avoid just focussing on regulatory silos, such as 'electricity & gas', and to carry out a cost-benefit review of the range of regulatory functions with a view to prioritising those that best meet the objective of improving consumer wellbeing.

For regulated distributors, extensions of the Commission's work in many cases will result in increased compliance costs that may not lead to material consumer gains. A focus on reducing overall compliance costs, in parallel with any expansion of the regulatory workplan, would also be sensible.

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Chair, ETNZ