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Commerce Commission

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Dear Commerce Commission

Review of the Commerce Commission's funding for the regulation of electricity and gas networks under Part 4 of the Commerce Act 1986

Wellington Electricity Lines Limited (**WELL**) thanks the Commerce Commission (**Commission**) for the opportunity to provide feedback on the 'Review of the Commerce Commission's funding for the regulation of electricity and gas networks under Part 4 of the Commerce Act 1986' (**Proposed Funding**).

The Electricity Network Association (**ENA**) has also provided a submission to the Proposed Funding. WELL supports the views of the ENA submission and will not repeat their key submission points.

WELL agrees with the Commission that the regulatory framework must adapt and change with the needs of the industry. Specifically, the regulatory model will need to enable distribution networks to increase investment and resources to meet the increase in energy demand as New Zealand moves towards the Governments zero carbon targets. WELL supports the Commission's request for more resource to ensure the regulatory framework supports the transition from fossil fuels to renewable electricity.

WELL also agrees with the ENA's submission points that any increase in expenditure must be transparent and robustly tested. Like the Commission oversight of expenditure for regulated businesses, the Commission must also demonstrate the proposed budgets represent efficient expenditure and that actual expenditure remains in line with the agreed budgets. There is currently not enough detail provided in the Proposed Funding document for submitters to judge whether the proposed funding is an efficient use of resources and consumers are benefiting in the long term. WELL recommends an external review to test this.

While we think that the costs should be robustly reviewed so that any expenditure is efficient, WELL agrees that the expectations on the Commission and regulated businesses have increased and the Commission should be adequately resourced. The benefits of a flexible and fit for purpose regulatory model will outweigh the proposed costs.

Question 2: Please provide feedback on whether you agree with how we have characterised the operating context of our work – in terms of a regulatory regime with increased expectations – in relation to our regulation of electricity and gas networks.

WELL agrees that the expectations on the Electricity Industry and subsequently the Commission have increased and that funding should also increase to meet the new demands. WELL notes that it appears that the Commission may not have the resources to deliver a larger work programme.

WELL agrees with the Commission that there is an increase in expectations around compliance, monitoring performance, consumer engagement and engaging with stakeholders – all aspects of ensuring consumers are receiving a cost efficient service. WELL also notes that there is a more practical requirement of ensuring networks have the resources to meet the governments zero carbon targets. Specifically, the electrification of the transport fleet and process heat in manufacturing and the transition from gas to electricity will require networks to invest in more capacity, resources and demand management tools. This investment could be in traditional infrastructure solutions and may require the Commissions to consider more CPP applications, re-openers or single issue investments. The investments may also not be of the size which requires the expense of a full CPP application and new regulatory mechanisms will be needed.

WELL believes climate change expectations will also require the Commission to co-ordinate with other government agencies to ensure the regulatory model can deliver the governments wider expectations. WELL believes that expectations on the Commission will be greater than what the Commissions have noted in the consultation paper. WELL believes it is important to adjust/refine the regulatory framework early as this is less expensive than incurring delays, as witnessed by other programmes where change has occurred faster than the regulatory support.

Questions 3: **Please provide feedback on whether you agree with how we have characterised the changing energy landscape in relation to electricity and gas networks. Are there other sector factors that you think are important?**

WELL agrees with the Commission description of the changing electricity landscape. WELL agrees with the Commission that the environment will continue to change and that the regulatory framework must be flexible enough to allow EDB's to adjust to the changing environment. The industry will not be able to wait for the scheduled reviews of the IMs and determinations to adjust to industry changes.

It is important that the Commission doesn't underestimate the impact that the governments zero carbon targets will have on the energy sector. Electric Vehicles alone will increase household energy consumption by 34%. The transition from gas to electricity could have a similar or greater impact on residential customers. Significant investment and change will be required to meet this forecast demand with least regrets investment required while the current regulatory framework is developed to accommodate changing business models.

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.

WELL is pleased that the Commission have recognised the importance of collaborating with other regulators and government departments where interests overlap. This will be even more important as government wide programmes that impact multiple Ministries are executed.

Question 4: please provide feedback on whether you agree with how we have characterised the increased expectations on the Commission.

As highlighted in our response to question 2, WELL agrees that the expectations on the Commission have increased and will increase even further with the government wide de-carbonisation initiatives. WELL believes that implementing the management of new technology to maintain stable and secure distribution network, changing customer preferences and the government's de-carbonation programme will have the largest impact on the Commissions resources.

Question 5: please provide feedback on how we have characterised our approach to delivering consumer outcomes in electricity and gas networks and our focus on 'bridging the gap'. Are there other outcomes you would expect to see with the additional funding we are seeking in the consultation document?

There are serval additional aspects WELL believes should be added to the 'gap' analysis:

***Investment and Quality**:* WELL believes that the mechanisms used to calculate a network's regulatory allowances are too rigid and will not reflect changes in technology, service levels and quality expectations. For example, EDB's will still need to manage their network assets while additional expenditure on the management of new technology like Electric vehicles and solar occurs. The current price /quality path options may be unsuitable for technology and service level changes. The DPP price/quality path is designed for business as usual operation and may not capture new costs. The CPP price/quality path is designed for large step changes in investment levels. Many cost changes associated to new technology are too small to warrant the effort and expense of changing price paths to a CPP. WELL believes that thought needs to be given to how allowances will adjust to on-going changes in service levels and quality expectations. Alternative price/quality paths like an IPP or single issue CPP's like WELLs recent earthquake readiness programme may be needed.

Maintaining a strong link between price and quality will be especially important as:

- New quality measures are added – it's likely that networks will need to invest equipment, resources and processes to provide the new measures;
- As new demand is applied to networks and further investment is needed to maintain supply standards and security;
- Customers transition from gas to electricity as a result of the recent climate change objectives. Currently 1 in 3 residential households have gas for heating and cooking in Wellington;
- As climate change (storms and storm surges) impacts service quality then investment will be needed to maintain current quality levels;
- As customer requirements change with the introduction of distributed energy resources like solar and electric vehicles[1].

[1] With the exception of solar, there is ccurrently no policy or application standards for distributed energy resources.

Compliance and Enforcement: WELL believes the scope of the Compliance and Enforcement work programme needs expanding to include providing a publically disclosed enforcement standards/guidelines and that the standards/guidelines align with the level of quality funded under the price-quality path. This will ensure that networks are correctly funded and are delivering a level of quality which is consistently applied across both of the regulatory teams.

Question 6: Please provide feedback on the workplan for 'bridging the gap' outlined above in relation to electricity and gas networks. Are there other elements of the workplan that should be included?

As outlined in our response to question 5, WELL generally agrees with the increase in scope of the Commissions deliverables and understands additional resources will be needed to deliver this. However, there is not enough detail to comment on:

- Whether the budgets are an efficient use of resources and consumers are getting the long term benefits;
- Whether there are any current activities that could drop out of the work programmes, offsetting some of the increase.

WELL recommends an external review of the budgets to provide confidence that the expenditure is efficient.

Question 7: Please provide feedback on the workplan for 'bridging the gap' outlined above in relation to the IM review. Are there other elements of the workplan that should be included? Do you agree that the 'bridging the gap' scenario for the IM review is more appropriate than 'bridging the gap+'?

It is difficult to make a meaningful comment about a preference for 'bridging the gap' or 'bridging the gap+' without knowing what each work programme includes. The IM review is a critical review to ensure the energy sector has the resources to deliver the governments zero carbon targets and to ensure EDBs are confident to make the substantial investments required to do so. WELL would support the funding structure that will best deliver this. The difference between the two programmes is modest when compared to the benefits foregone of not delivering the de-carbonisation programme. While consumers might pay a small amount more in the short term, they could pay significantly more in the long term if the regulatory frameworks are not fit for purpose.

Question 9: Please provide feedback on whether you think one of the other funding options set out above is more appropriate than our preferred option of 'bridging the gap', and why?

In line with our response to question 7, WELL supports the pricing options which will best ensure a regulatory model which meets customer and government quality and service expectations that the electricity network is funded to deliver. At a minimum this is the 'bridging the gap' option. However, there are some aspects of the 'gap+' option that WELL also supports and believes are necessary:

1. An expanded focus on understanding consumer needs, preferences and behaviour – this is essential for understanding what customers want from new technology and how much they are willing to pay, and how networks will deliver new service or quality changes for this price. Without this work stream we cannot be confident the regulatory framework will meet consumer expectations or their price point.

2. An increased focus on collaborating across government in relation to the broader energy regulatory system – MBIE's Electricity Price Review recommendations and the governments zero carbon targets are government wide programmes that will require close inter-government co-operation. The regulatory framework could inadvertently block progress if it is not closely aligned government wide. For example, future network management utilising distributed energy resources will rely on the Electricity Authority promoting retailers to pass through price signals that reflect the cost of using energy during congested periods on the network.

WELL believes the best option falls between the 'bridging the gap' and 'bridging the gap+' options.
Thank you for the opportunity to provide a submission. This is a critical time for the electricity industry and a fit for purpose regulatory regime will be essential to ensure New Zealand's successful transition away from fossil fuels to renewable electricity, at a quality standard and price which promotes security, sustainability and affordability.

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

Greg Skelton

Chief Executive Officer

Wellington Electricity Lines Limited