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## TRUSTPOWER FEEDBACK ON ENSURING ENERGY NETWORK REGULATION IS FIT-FOR-PURPOSE

### 1. Introduction

- 1.1.1. The growing concerns about, and calls for action, on climate change and new technologies are reshaping energy markets around the world with flow on effects for regulators and market participants.
- 1.1.2. On 29 April 2021, the Commerce Commission (**Commission**) published an open letter on the emerging issues for energy networks as they relate to its responsibilities under Part 4 of the Commerce Act 1986 (**Part 4**).
- 1.1.3. Trustpower Limited (**Trustpower**) believes it is timely for the Commission to reassess its regulatory priorities in the light of changes in the electricity and gas markets and welcomes the opportunity to provide feedback on the Commission's open letter. Each market is addressed in turn.

### ELECTRICITY MARKET

### 2. Supporting electrification

- 2.1.1. We consider it will be important that the Part 4 price-quality paths and information disclosure arrangements enable measures to assist in the transition to a low emissions and new energy technology environment.
- 2.1.2. To meet New Zealand's electrification requirements during the transition, it will be particularly important that the Part 4 arrangements support the necessary investment across the supply chain. This will be best facilitated by investing in network infrastructure ahead of need, thereby providing much needed certainty for other investment decisions such as process heat conversion, generation build etc.
- 2.1.3. Ensuring the Grid Investment Test enables the Commission to consider the longer-term benefits to consumers of decarbonization will be important.

### 3. Customer needs

- 3.1.1. It is also important that we do not lose sight of our customer's core requirements in the digital age. Fundamentally our customers are seeking:
  - a) Reliable and consistent supply of electricity;

- b) Timely and accurate information about their electricity supply, including information on planned outages;
  - c) Quick responses to any network issues to restore supply and reduce impact on their daily lives and business operations<sup>1</sup>; and
  - d) Value for money.
- 3.1.2. We do not see these core requirements changing.
- 3.1.3. In addition to these core requirements, some of our customers will also seek to:
- a) Connect and charge their electric vehicles;
  - b) Connect solar panels and/or batteries and sell surplus energy; and
  - c) Take advantage of energy management systems and other emerging technologies to shift or manage their time of use to lower their energy bills, and/or improve business processes or lifestyle.
- 3.1.4. These customers will be seeking timely and fulsome responses from distributors about:
- a) the charges their activities will incur;
  - b) connection and ongoing technical requirements; and
  - c) any access constraints they may face before they have made their technology choice.
- 3.1.5. These customer expectations have implications for the operating procedures, customer interactions, asset and risk management practices, and investment decision making (including in relation to non-wire solutions, and IT and communications systems) of network businesses.

#### **4. Affordability**

- 4.1.1. Network investment requirements across many distribution networks will increase as old assets are replaced, and distributors respond to district and population growth. In parts of New Zealand there is also challenging topology which can result in remote areas that have high costs to serve. These factors, along with changing use patterns, will put all put pressure on network prices.
- 4.1.2. In order to ensure that network prices are as low as they can be, it will be important that strong incentives exist for the appropriate consideration of alternative technologies (both existing and new) to provide required services on a least cost basis. This may require a reconsideration of the current procurement arrangements and incentive schemes if they favour self-supply over contestability, or network solutions over alternative technologies.

#### **5. Growing the network support services market**

- 5.1.1. Our view is that as demand grows on the networks, there is room for parallel growth in the network support services market using both new and existing technologies. However, to realise this growth for the long-term benefit of consumers, distributors will need to make their longer-term strategies more transparent so interested stakeholders have sufficient time and information to assess the likely investment opportunities.

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<sup>1</sup> We note that supply resilience may also become a growing concern as a result of the effect of climate change on weather patterns.

- 5.1.2. We are also keen to see distributors face an incentive scheme which not only encourages contestable supply as well as self-supply, but which also is readily understandable to all potential suppliers. It could also make sense to develop standard arrangements for procuring support services from distributed energy resources.

## **6. Pricing structures**

- 6.1.1. Affordability and reliability will be enhanced if networks adopt appropriate pricing structures which operate to deter investment, such as congestion pricing (as was recently recommended by the Infrastructure Commission for this very purpose).
- 6.1.2. In a post-COVID world it is also important that any reform of revenues or prices takes into account distributional impacts on consumers and provides carefully designed transition plans for adversely affected consumers.
- 6.1.3. Trustpower acknowledges that the pricing structure (within the revenue cap) is part of the Electricity Authority's remit but encourages the Commission to work closely with the Electricity Authority to ensure that the long term interests of consumers are being met in both the establishment of revenue requirements and the structures and processes by which those revenue requirements are turned into prices.

## **7. Boundary issues**

- 7.1.1. Our understanding is that there is a consensus between the Commission and the Electricity Authority that network companies should not be using their core monopoly position to create a competitive advantage in the new adjacent contestable markets.
- 7.1.2. We will be relying on the Commission to rigorously enforce the existing rules which safeguard against this risk, including in relation to inclusion of assets into regulated costs and the allocation of shared costs. We also assume the Commission will promptly address any gaps that might emerge.
- 7.1.3. Consumers benefit from true competition which occurs on a level playing field. Conversely the failure to ensure a level playing field would mean that consumers of regulated services end up paying higher prices for emerging technologies without sharing the benefits they provide.

## **8. Need for pilot programmes to test new technologies**

- 8.1.1. Our view is that it is appropriate for the next set of price paths to recognise the challenges distributors will face as a result of the new technologies. For example, there may be a need for an additional allowance to cover the "trial and proof of concept" costs to ensure that new technologies and opportunities for new forms of demand response are well understood and fit-for-purpose before widespread adoption.
- 8.1.2. We consider that the key learnings of any trials funded under Part 4 allowances should be shared publicly as this would result in a more cost-efficient outcome than funding each distributor separately to assess each technology.
- 8.1.3. Funding for this purpose should also be clearly ring fenced from other activity. Our customers do not want to see deferral of capex and opex required to deliver network reliability in favour of experimental new technology investment.

## **9. Providing transparency about distributor capabilities**

- 9.1.1. As part of the energy transition small, mid and large-scale distributors will need boards and management teams skilled to lead in an environment of technology change, increased investment risk, changing service offerings, and changing consumer demands.
- 9.1.2. For example, all distributors will:

- a) require technical expertise to robustly plan for significantly longer time frames than current 10-year asset management plans in a much more complex operating environment where adaptability will be key;
  - b) need to be able to forecast and manage maintenance costs as assets age using new technology;
  - c) need to develop and operate systems to detect, remove and recover from cyber security attacks;
  - d) have to meet enhanced privacy expectations of customers whose data they will have access to; and
  - e) ensure they are able to keep up with the increasing complexity of regulations - a challenge the entire industry is facing.
- 9.1.3. We think that the Commission should use its intended ongoing “summary and analysis” of disclosed information to further examine and highlight the readiness of individual distributors to address these issues.
- 9.1.4. This may be a matter on which, in the first instance, the Commission should seek certification from the relevant boards, similar to the stress testing regime established by the Electricity Authority. This could prove to be a positive trigger for future collaboration and knowledge sharing.

## **10. Addressing outlier non-performance**

- 10.1.1. As with other essential services, New Zealand needs to avoid ‘post code’ delivery of its electricity supply services.
- 10.1.2. An August 2018 report from TDB Advisory for the Electricity Price Review entitled “*Estimated Efficiency gains from Amalgamation of Electricity Distribution Businesses*” revealed that there is considerable difference in the asset operating costs and overheads between distributors that could not readily be explained by density or size. In other words, there are some outliers who appear to have higher than average supply costs.
- 10.1.3. The fact that some customers could be paying distribution costs which are materially higher than best practice is of concern and warrants further examination.
- 10.1.4. As part of this further examination we would support the Commission adopting benchmarking studies to identify any areas of efficiency concern which require greater scrutiny. Our understanding is that using benchmarking in this way does not breach the existing statutory constraint on using benchmarking for price path regulation.

## **11. Developing a system operator model**

- 11.1.1. The continued growth of distributed energy resources (including demand response) will create new opportunities for the provision of network services (and other market services). This suggests that at some point in the future there will need to be system operator services on the lower voltage networks.
- 11.1.2. System co-ordination will be needed to maintain supply quality and enforce new constraint rules to prevent outages from too much demand or injection. Ideally distribution system operator functions should be carried out independent of distribution system ownership to maintain competitive access to network infrastructure and provide independent oversight over the coordination of more complex energy flows and different preferences for security, quality and reliability.
- 11.1.3. We consider that a sector-wide coordinated approach is likely to be preferable to a set of ad hoc solutions evolving in this space.

## GAS MARKET

### 12. Outlook for downstream markets

- 12.1.1. Trustpower notes that the outlook for the gas industry is very different from the electricity sector as natural gas is expected to decline in use and there is uncertainty about the extent to which existing infrastructure will be needed for biogas and hydrogen.
- 12.1.2. In the short term the most prudent strategy is to maintain optionality. Over the medium term the Commission may need to consider the extent to which consumers or asset owners bear any asset stranding costs.
- 12.1.3. The Commission has recently considered this type of risk in its design of the regulation of fixed line access services under the Telecommunication's Act and we assume that a similar suite of regulatory tools will need to be considered in the gas context.

### 13. Concluding remarks

- 13.1.1. Trustpower considers that Part 4 regulation is generally working well in providing stable and predictable regulatory processes that promote efficient investment and ensure profits of network businesses are reasonable. However, we acknowledge that sector change is underway.
- 13.1.2. In the electricity sector, lower cost distributed generation and storage, together with electric vehicles, will progressively transform the distributor's operating environment. In the gas sector, there is uncertainty about the future demand for pipeline networks as New Zealand moves away from fossil fuels. Part 4 regulation needs to be flexible enough to respond to both sets of market challenges when they occur.
- 13.1.3. Future intervention however still needs to be based on evidence rather than anticipation or conjecture. Leading the market involves forecast risk and the regulator picking winners, which would not augur well for affordability.

For any questions relating to the material in this submission, please contact me directly on 027 5499330.

Regards,



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