

12 July 2018

Keston Ruxton
Manager, Price-Quality Regulation
Commerce Commission
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By email: regulation.branch@comcom.govt.nz

Dear Keston

Proposed process for default price-quality paths for electricity distribution businesses from 1 April 2020

The Electricity Retailers' Association of New Zealand (ERANZ) welcomes the opportunity to provide feedback on the Commerce Commission's (the Commission) 14 June 2018 consultation paper on the Commission's proposed process and timelines to set the next default price quality path (DPP) for electricity distribution businesses (EDBs).

We welcome the opportunity to engage at this early stage in the process. Our objective is to contribute constructively in the process to help ensure New Zealand achieves a fit-for-purpose electricity system that will deliver for the future needs of consumers.

ERANZ supports the process outlined in the Commission's paper

The process and timeline the Commission has outlined in its paper is appropriate. We appreciate that the Commission has made allowance for the Christmas holiday season which has previously proved problematic for submission deadlines on previous industry consultations.

As the Commission will be aware, the industry will be heavily engaged in other issues, in particular the Government Electricity Pricing Review (EPR) and ongoing Electricity Authority (EA) consultations, which are occurring within the proposed DPP reset timeframes. Given the scale of the issues the industry is tackling in parallel, the Commission should ensure the DPP reset gets the attention it requires from stakeholders by continuing to closely liaise with MBIE and the EA to ensure deadlines for key submissions do not clash.

ERANZ believes the workshops proposed by the Commission in its paper will be highly valuable to the process. The Commission recently held a workshop for ERANZ and MEUG members explaining the current service quality measures which proved very helpful for our understanding of the issues and policy intent.

The DPP reset presents a valuable opportunity to address issues affecting price and quality for the long-term benefit of consumers

Retailers' overarching concern is the differing approaches by EDBs to what appear to be common issues and activities. The lack of a common approach introduces unnecessary complexity, costs, risk, and a lack of transparency. Without common approaches it is difficult for the customers of EDBs, such as retailers and direct-connect customers, to understand the comparative price vs. quality trade-offs routinely being undertaken by EDBs on behalf of their end-consumers and shareholders. To elaborate with one example, EDBs appear to be taking quite different approaches to scenario planning on their networks for demand impacts, and consequent impacts for investment and pricing structures, from increased uptake of EVs and solar PV. Whilst we recognise some EDBs will have different profiles, it is not clear why does one EDB believe that pricing will sufficiently give the right signals to consumers for EV charging, whilst another does not. ERANZ believes the process for the DPP reset, and the Input Methodologies in general, would be improved if there was greater transparency of the evidence-base for these assessments. This links back to ERANZ's earlier comments on the need for this transparency to be echoed in the Asset Management Plans so that there is a more direct link between the demand-forecasting, proposed investments, and consequent service/quality standards.

The next DPP reset presents an opportunity to encourage a greater standardisation of the approach and framework being applied by all EDBs.

The proposed process shows that the Commission intends to publish an issues paper in November. ERANZ suggests that as part of developing this paper the Commission meets with stakeholders to gain an understanding of their perspective, such as that outlined above, on how key issues affect them.

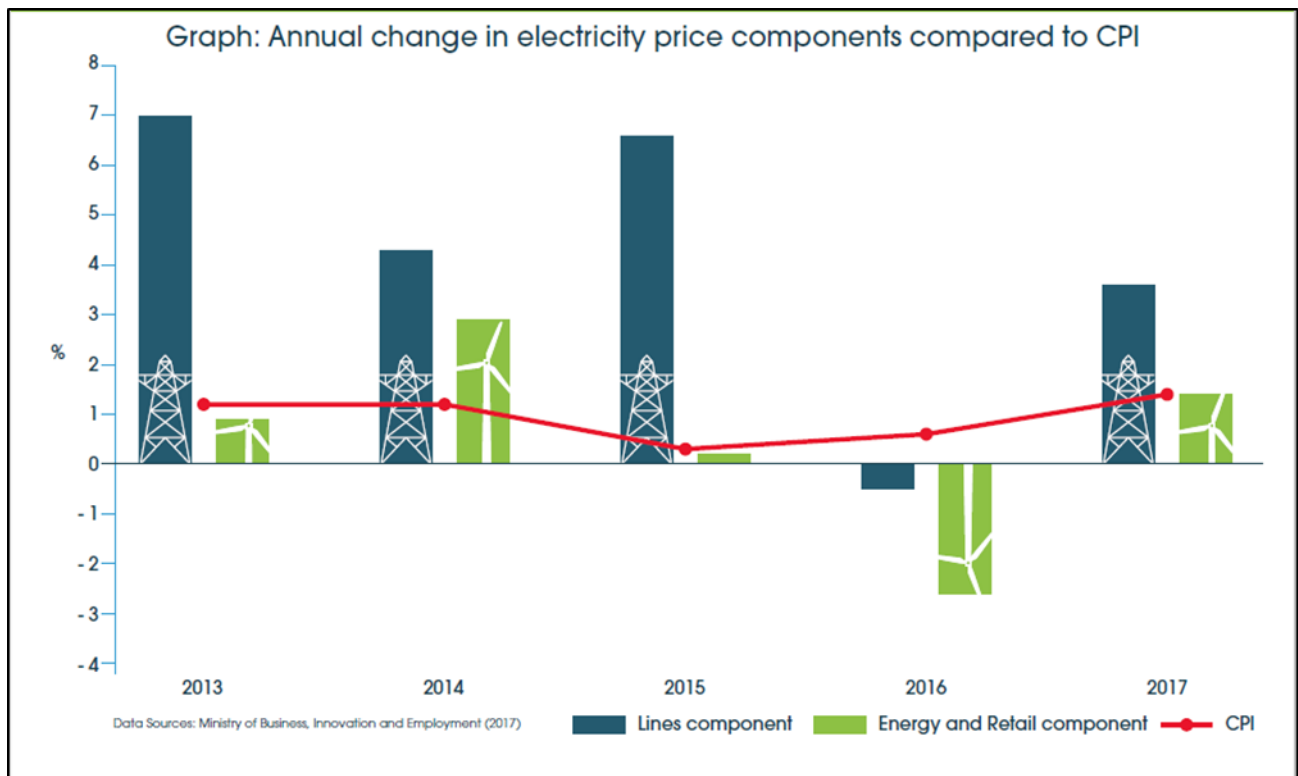
Better understanding of EDB issues enables retailers to better quantify risk and performance

Like any business, retailers seek to quantify the various costs and risks to its operations – both now and in the future.

The distribution of electricity is critical to a retailer meeting the expectations of its customers. Retailers face damage to their reputation and brand, as well as costs, if the service of electricity is not adequately maintained. Retailers thus seek to understand the issues within electricity distribution networks in order to quantify these risks.

We are not suggesting there should be no risk. We are also not necessarily suggesting that EDBs are doing anything wrong. We know they strive to do the right thing for their consumers every day. By and large the system is reliable, and it is a credit to EDBs that power outages for the bulk of consumers are a rare occurrence. However, as the dynamics of electricity supply change, as well as the investments needed to maintain and support electricity distribution change, retailers will need to understand the service and quality aspects of that to a greater degree to manage their own businesses.

ERANZ's analysis indicates that electricity price pressure has over the last 5-years largely been driven by the lines side and is predicted to continue to do so in the near future. The Commission itself has indicated there is a "wall of wire" that needs investment given the age profile of and normal life-cycle replacement of a large number of distribution assets. The graph below shows that whilst the energy components of the price of electricity has fallen below the rate of inflation, the lines component has increased at a rate higher than inflation.



Networks invest to meet demand growth and maintain service-quality levels. Network investment becomes more complex as networks age and nascent technologies provide both risks and opportunities. The consequences of sub-optimal investment decisions are ultimately borne by end consumers, manifesting as either higher prices or reduced quality.

Retailers therefore need to better understand how investment decisions will impact the price and service-quality their customers will receive in the future. It is important that the service measures and incentive schemes chosen as part of the DPP resent provide interested parties with better understanding of comparative EDB performance, and opportunities for service performance.

Conclusion

ERANZ is supportive of the process and timeline outlined in the Commission's paper. We look forward to engaging in a constructive manner and would be happy to meet with the Commission to discuss concerns and issues from a retailer perspective. Being at the sharp end of the electricity value chain, retailers can provide valuable consumer insights, and relate the practical experience of how things are working at the coal face.

Retailers seek to ensure their customers are receiving a level of service at a price they can afford. As such retailers form an essential service for consumers in getting value for money and ensuring quality levels continue to reflect their needs.

We believe the nexus of many of the underlying issues is the lack of a consistent in approaches to common EDB processes and practices. This should be addressed in the Commission upcoming issues paper.

Thank you for your consideration of this letter. We look forward to continuing to work with the Commerce Commission for the benefit of the sector and the long-term interests of consumers.

Yours sincerely



Jenny Cameron
Chief Executive