



## **ERANZ post-workshop feedback on Spotlight on Emerging Contestable Services**

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**Electricity Retailers' Association of New Zealand  
PO Box 25596 | Wellington, 6011**

By email: [eacomcomjointproject@comcom.govt.nz](mailto:eacomcomjointproject@comcom.govt.nz)

## **ERANZ post-workshop feedback on Spotlight on Emerging Contestable Services**

The Electricity Retailers Association of New Zealand (ERANZ) greatly appreciated the opportunity to collaboratively workshop the issues around electricity distributor businesses (EDBs) participation in emerging contestable services with representatives from regulators, EDBs, retailers and other sector representatives.

It was a useful exercise and reinforced the point that all parties are there to deliver the best outcomes for consumers – making sure they can access the full benefits of smart devices, batteries and electric vehicles.

One of ERANZ's key take-outs from the session is that there are challenging trade-offs to be made by regulators in determining exactly what drives the greatest benefit for consumers when one potential market participant is also a monopoly business.

ERANZ firmly supports competition as the key mechanism for delivering benefits for electricity consumers. Competition drives innovation and improved services for customers and, also keeps prices low.

With the right regulation in place, EDB participation in contestable services will drive greater competition and ultimately improve outcomes for consumers. ERANZ welcomes and supports that.

However, competition that is not on a level playing field - as can be the case when one participant is a monopoly business - can drive long-term harm to consumers.

The monopoly distinction is key. Much of the workshop, at least in the groups ERANZ observed, focused on generic factors any business would consider when making an investment decision, and the generic responses of their competitors and potential suppliers. But what makes this issue worth examining through a different lens is the fact that EDBs are regulated monopolies and therefore have the potential to distort nascent markets, reduce competition, and ultimately harm consumers. Proactive regulation is required to ensure this does not eventuate.

The remainder of this note highlights the key issues that have potential direct harmful impacts on consumers, and should be considered by the Electricity Authority and Commerce Commission as part of the review.

### **Potential cross-subsidisation of investments in emerging technology**

All businesses, including EDBs, need to be preparing and investing for a future that looks different from the one we have today. That includes investing in emerging technology. What is important – particularly for monopolies – is getting the incentives right to drive the appropriate level of investment in new technologies.

Most businesses operate in a competitive market and therefore bear the risk of investing for a future that may or may not eventuate. This is not the case for monopolies. Consumers will pay for network and transmission upgrades regardless of whether the scenario underpinning those investments eventuate.

Absent effective regulation, EDBs could recover their sunk investment following future asset stranding or underutilisation, effectively shielding them from the risk associated with technology uptake and shifting that cost to consumers.

This issue can be resolved by appropriate regulation, such as ringfencing to provide accounting and functional separation of competitive and non-competitive services as this reduces any incentive (actual or perceived) to misuse monopoly power.

### **Potential for inefficient procurement decisions**

There is also the potential for consumer harm to occur where there is a lack of incentives on distributors' procurement decisions. This includes where cross-subsidisation can occur with a monopoly undertaking transactions with a related party.

This issue can be resolved through appropriate regulation – such as external monitoring of procurement choices and enforcing appropriate competitive tendering requirements on transactions involving a monopoly business and a related party.

### **Impact of cross-subsidisation on long-run competitiveness**

Short-run cross-subsidisation can also reduce long-run competitiveness in a market.

The lack of a level playing field, and the significant advantages that confer on non-competitive businesses such as EDBs, means those short-term benefits risk forcing competitive market participants to exit over time, or to prevent new providers from entering the market – ultimately reducing choice and harming consumers.

One example is electric car chargers. A number of EDBs currently provide free charging stations, with the costs ultimately being cross-subsidised by other parts of its business. On the face of it, this appears to be a positive for local electric car users, albeit paid for by other EDB customers. However, the provision of a free service by a monopoly will make those areas substantively less attractive to commercial providers of car charging services, essentially - because they cannot compete with a free product. This ultimately reduces competition and choice for consumers.

Again, this is an issue that can be resolved through appropriate regulation, such as information disclosure to ensure scrutiny and transparency of investment decisions.

## Erosion of trust between market participants

As well as those factors that directly impact consumers, there are also further issues with monopoly participation in nascent contestable services that affect the overall operation of the electricity market by potentially undermining trust between different parts of the electricity sector – increasing transaction costs, reducing efficiency and ultimately harming consumers.

One example is data sharing between retailers and distributors. Some data sharing challenges stem back to concerns around monopoly participation in contestable markets – and what checks and balances are in place to ensure that data requested to support the management of non-competitive services is not also used to drive an advantage in other, competitive parts of businesses.

## Potential regulatory solutions to consider

There are benefits to consumers from EDB participation in emerging contestable services as a result of increased competition - provided the issues raised above can be resolved through appropriate regulation.

ERANZ welcomes the steps that regulators, in collaboration with EDBs and retailers, have taken already to provide clarity around what is and isn't appropriate activity. However, further improvements to the regulatory regime could include:

- improved transparency and disclosure regimes,
- regulator monitoring and enforcement measures,
- external scrutiny of procurement choices, and
- clearly defined boundaries for competitive investments.

## Conclusion

The development of emerging technologies is a significant opportunity for the electricity sector. New innovations present a potential path to curb peak demand (hence reducing investment requirements), and to help deliver a greater proportion of renewable electricity.

It is appropriate that EDBs investigate, and invest in, nascent technologies. Indeed, many EDBs have invested in public EV charging, and a significant majority have invested in electricity generation, battery storage, or both.

However, competition remains the greatest driver of consumer benefit in the electricity industry. Competition is the reason New Zealand has the 12<sup>th</sup> cheapest electricity in the developed world. Appropriate regulation is required to ensure that competition is not eroded.

Yours sincerely



Cameron Burrows  
**Chief Executive**