



Corporate Office

Powerco Limited
Level 2
NPDC Civic Centre
84 Lizardet Street
Private Bag 2061
New Plymouth 4342

☎ 0800 769 372

🌐 powerco.co.nz

12 February 2021

Dane Gunnell
Manager, Price- Quality regulation
Commerce Commission
Wellington

By email: regulation.branch@comcom.govt.nz

We understand the pressures and uncertainty facing the Commerce Commission - we face them too. The rapidly changing energy landscape is requiring distributors and regulators to respond and adapt. The Commission's 2021-26 levy funding proposal reflects this. The availability of Commission staff to discuss the levy proposal has assisted with our response and is much appreciated.

Gas and electricity distributors will be enablers of a low emissions economy, so an ongoing priority for the Commission is engagement with the Government, Climate Change Commission, and stakeholders on how the electricity and gas sectors can support the various pathways towards net-zero carbon in 2050. Alignment of the Commission's application of the Commerce Act with the objectives and expectations of the Climate Change Commission and Government is essential.

Our principal views on the Commission's levy funding proposal and associated workplan are:

- **Flexibility and prioritisation** in the Commission's workplan will be fundamental to delivering the right work at the right time given the range of policy and market factors affecting the energy sector.
- **Engage stakeholders on workplan and progress against it.** We see high value in the Commission increasing its engagement of its workplan and progress on different initiatives. This will enable the Commission to demonstrate the value consumers are receiving from the Commission's additional funding, understand how projects are being prioritised, and ensure all stakeholders can efficiently plan how they engage on them.
- **Support a variant of the 'bridge the gap+' level of funding** to ensure the Commission is resourced to consider and respond adequately to upcoming decision processes affecting gas and electricity distributors and their customers beyond the levy funding horizon.

Attachment 1 provides Powerco's detailed feedback. If you have any questions on this submission, please contact Nathan Hill (Nathan.Hill@powerco.co.nz).

Yours sincerely

A handwritten signature in black ink, appearing to be "AK", written over a light blue horizontal line.

Andrew Kerr
Head of Policy, Regulation, and Markets

Attachment 1: Powerco's detailed feedback

Regulation must keep pace with the evolving energy landscape

The Commission's levy funding for Part 4 regulation has not been reviewed since 2013. Since then the social, economic, and environmental context for electricity and gas networks has changed significantly. It's an exciting time. While it's unclear exactly how the future will pan out, it is clear the regulatory and business response must challenge how much history is relied on to inform the future.

For example, electricity distribution is becoming increasingly complex as emerging technologies, changes in consumer behaviour, and decarbonisation affect electricity demand and the way electricity is delivered. Significant change is also imminent for gas networks. Government policy on climate change is raising questions about the role of gas networks – whether it be conveying natural gas or alternatives.

But the current regulatory regime was not designed with this rapidly changing context in mind. And as pointed out by the Expert Advisory Panel for the Electricity Price Review, traditional regulatory frameworks are a potential barrier to emerging technologies and business models.¹ So, to keep pace and to continue delivering effective oversight and fit for purpose regulation the Commission must have the ability to respond and adapt.

The need for regulators to respond cohesively and efficiently underpins our support for increased Commission funding.

Flexibility and prioritisation in the Commission's workplan will help ensure regulation delivers the greatest value to New Zealanders

The Commission's work plan needs to be designed to respond to current issues, while also starting work on developing issues. Because the energy landscape is changing rapidly and the pathway forward is filled with uncertainty, flexibility of the work programme will be fundamental to delivering the right work at the right time. The lenses that should guide prioritisation of work are immediacy and impact.

Increased engagement on the Commission workplan will give stakeholders confidence the Commission is targeting the right issues

The Commission's workplan should be socialised with stakeholders regularly and could include an annual consultation process for discretionary initiatives. This increased engagement will result in a more comprehensive workplan and it will give stakeholders confidence the Commission is delivering the right work at the right time. Updates on how the Commission is going against the previous year's workplan should also be included.

Producing a year-ahead calendar of projects and their outcomes would be a useful resource for stakeholders to plan their engagement with the Commission. The Electricity Authority's workplan is an example of a helpful approach². We support a proportionate approach given the essential task is to communicate to stakeholders the 'what, when, and why' of Commission initiatives.

¹ Expert Advisory Panel (New Zealand), Electricity Price Review – First Report, p. 78

² <https://www.ea.govt.nz/about-us/strategic-planning-and-reporting/our-work-programme/>

The Commission's workplan needs to accommodate the innovation and transformational challenges facing distributors

When we look at the current and developing operating environment, the issues that will have the biggest impact on the industry and consumers are the huge transformational challenges looming for gas networks and the huge innovation challenges facing electricity networks. Given their potential impact, we think the Commission's workplan should be adjusted to focus more heavily on these issues. Initiatives the Commission should employ to support distributors with these issues include:

- **Adopting a more dynamic style and form of regulation** will help ensure distributors can implement new technologies and services in a cost-effective and timely manner. We welcome the Commission's acknowledgement that this change in approach is required, and look forward to seeing where this is included in the Commission's workplan.
- **Alignment between energy market regulators**, including with MBIE, the Electricity Authority, the Energy Efficiency and Conservation Authority, the Gas Industry Company, and the Climate Change Commission. As a customer of the decisions of these parties, our desired service is consistency of priority and approach on key issues backed up by timely and proportionate regulatory/policy changes to enable them.
- **Review of information disclosure.** It is important that the Commission undertakes a comprehensive review of the Information Disclosure requirements so that distributors can begin reporting data that may be required future quality standards and incentives.
- **Increased tailoring of default price-quality paths.** The current low-cost approach of setting distributors expenditure allowances, based largely off historical expenditure, must also allow for the type and quantum of expenditure needed to accommodate new technologies and probable increased reliance on electricity to meet changing consumer preferences eg transport and home-working. Using the existing CPP process to address this type of situation is likely to be disproportionate and inefficient.
- **Leverage overseas and industry expertise.** New Zealand is a technology-taker so there will be valuable lessons we can take from the experiences of other countries. The Commission's workplan may be more cost-effective if it makes greater use of existing industry expertise. The 'advisory group' approach of the Electricity Authority is one potential model.

Support a variant of the 'bridge the gap+' level of funding to ensure the Commission can respond to known future industry challenges

Because the Commission has a vital role to play in distributors cost-effectively meeting the challenges of the changing energy landscape, the levy funding option must ensure the Commission is resourced to consider and respond adequately to known changes affecting gas and electricity distributors. From the description of the options, 'bridging the gap' will be inadequate to deliver this eg unlikely to allow for the increased tailoring of the DPP that will be necessary to accommodate new technologies or fundamental changes to gas network regulation.

The funding level for 'bridging the gap+' will be necessary, though potentially with a different mix between the allocation to the IMs and alternative work. We fully support the intent to simplify the IMs. This is a no regrets option. One approach would be to request the additional funding to cover a basket of possible options, then prioritise accordingly (and transparently). Using industry experts is another tool for reducing the direct cost requirements while making relatively little change to the indirect costs. This approach would be preferable to requesting additional unforeseen funding or

not delivering an adequate outcome for consumers to an important issue that is difficult to plan for. This is a good example of where it's prudent to invest in the capability in advance of the need.