

Cross Submission

Commerce Commission Targeted
Information Disclosure Review – Electricity
Distribution Businesses
Process and Issues Paper

4 May 2022

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1. INTRODUCTION

1. Aurora Energy welcomes this opportunity to cross-submit on the Commerce Commission's (the **Commission's**) Targeted Information Disclosure Review – Electricity Distribution Businesses; Process and Issues Paper (the **Paper**).
2. No part of our submission is confidential.
3. Having reviewed submissions on the Paper, we confirm that Aurora Energy's views and recommendations stated in our submission of 20 April 2022¹ remain unchanged.

1 Aurora Energy Limited. (2022). Commerce Commission Targeted Information Disclosure Review – Electricity Distribution Businesses: Process and Issues Paper.

2. ISSUES

2.1. REGULATORY BURDEN

4. Aurora Energy remains supportive of the purpose of information disclosure (ID), and acknowledges its important role as part of the checks and balances that underpin an effective regulatory regime.
5. However, in our submission on the Paper, we noted our significant concern that a step change in regulatory burden may occur if all thirty three of the Commission’s proposals were to be adopted and implemented.² We note that many submitters’ concerns were aligned with ours, as noted below.³
6. Powerco noted that:

“We can understand why stakeholders could value the suggested information. But there needs to be more, and careful thought put into the value of the outcomes and how it would assist stakeholders. Essentially a qualitative cost-benefit assessment.”⁴
7. Vector also considered that cost-benefit analysis should be a necessary step in development of new ID requirements and noted that there had been opportunity to undertake that work in advance of the Paper being issued:

“Each proposed new disclosure should have a use case that closely examines benefits and costs of that proposal. We consider that the Commission could have done these use cases in advance of the PIP being issued, with assistance provided by EDBs and the ENA.”⁵
8. Unison and Centralines were also concerned by the costs that implementation of so many ID proposals might impose, and described circumstances that would potentially drive increased costs:

“But it is important to recognise that data collection, recording and reporting systems and, where relevant, auditing requirements, are not costless. Even where EDBs are currently collecting data for their own internal management purposes, if definitions vary from the way in which an EDB currently collects information, it may take time to implement variations in automated systems, or data collection practices.”⁶
9. Vector noted that the Paper was silent on audit requirements and recommended that *“the Commission must provide a view as to which disclosures would be subject to audit, as this will factor heavily in the cost benefit test described above.”⁷* We agree with Vector’s recommendation.
10. Most of the above submitters also considered that greater stakeholder engagement was required to ensure that the ID additions would be useful to stakeholders. Vector noted that:

² Ibid. Paragraph 3, p3.

³ Centralines, Network Waitaki, Powerco , Unison Energy, Vector, Wellington Electricity,

⁴ Powerco Limited. (2022). Submission on the Targeted Information Disclosure Review – Electricity Distribution Businesses – Process and Issues paper. p1.

⁵ Vector Limited. (2022). EDB Targeted ID Review. Paragraph 10, p2.

⁶ Unison Energy Limited and Centralines Limited. (2022). Unison and Centralines Submission on Targeted Information Disclosure Review.

⁷ Ibid. Paragraph 11, p3.

“The timeline suggests that the Commission will be producing their draft decision on the Tranche 1 proposals solely based on the consultation responses to the PIP. This implies no direct engagement with EDBs or other stakeholders ahead of the draft decision. We consider this is a missed opportunity for the Commission to hear first-hand what the issues are with the current suite of disclosures and what new disclosures could be added that would benefit of interested parties.”⁸

11. We agree with Vector and note that seeking stakeholders’ views through such engagement is a necessary input to the cost-benefit analysis that is required to support progression or abandonment of the Commission’s proposals.

12. We are concerned that some submitters have little regard for the costs that the proposed ID additions would impose on EDBs and, by extension, their consumers. Utilities Disputes Limited (UDL), in its submission, did not explicitly consider cost and noted that:

“In general, we support the proposed changes because the information will be relevant to some consumers. It is also likely to be helpful for UDL when investigating electricity consumer complaints.”⁹

13. UDL appears to be coming from the perspective that any additional information EDBs can provide is ‘good’ for consumers, and should therefore be provided. However, providing that information comes at a cost that is ultimately passed to consumers¹⁰ and should be robustly assessed to ensure that a commensurate consumer benefit is achieved.

14. In relation to the degree of information required, Unison and Centralines noted that:

“... the Commission should have clear criteria that inform the development of requirements, otherwise there is risk that disclosure requirements become a shopping list of “nice to have” information, but without a clear understanding of how the information is to be used or useful to interested persons.”¹¹

15. We agree with the views of Unison and Centralines which align with the point we made in our submission, that *“the purpose of ID is to ensure that sufficient information is available to allow interested persons to assess whether the part 4 purpose is being met”* and that *“any information that is more than adequate must be thoroughly examined to determine whether it is, in fact, necessary to meet the Part 4 purpose.”¹²*

16. UDL also provided context for its support of some proposals by noting the number of complaints it has received, by topic, over the past 5 years. However, the number of complaints received by UDL is very low when compared to the number of electricity connections nation-wide, and does not justify the broad imposition of additional costs across the entire electricity distribution sector. We consider that the levy structure that UDL uses to fund itself provides a natural incentive for EDBs to improve their customer service

⁸ Ibid. para 10, p2.

⁹ Utilities Disputes Limited. (2022). Utilities Disputes Submission on the Targeted Information Disclosure Review – Electricity Distribution Businesses - Process and Issues paper. p1.

¹⁰ Assuming that appropriate allowances are provided for non-exempt EDBs to provide additional disclosures. Even if appropriate allowances are not provided, EDBs will be required to reduce funded activities in order to accommodate the additional costs of ID, with a resulting consumer impact.

¹¹ Ibid. p2.

¹² Ibid. Paragraph 6, p3.

performance by targeting EDBs according to the number of deadlocked complaints they incur (as does as the significant redirection of internal resources that is required to respond to UDL’s complaint resolution process).

17. A factor in mitigating regulatory burden is to ensure that regulatory overlap is appropriately managed. Unison and Centralines noted an example:

“... there are proposals being developed to change the Civil Defence and Emergency Management Act which would require lifeline utilities to provide much more information relating to resilience including “Planning Emergency Levels of Service” (PELOS). We recommend that the Commission coordinate with NEMA on disclosure requirements relating to resilience and contingency planning to avoid regulatory duplication or inconsistency.”¹³

18. Aurora Energy agrees with Unison and Centralines.

2.2. PROCESS TIMEFRAME

19. In our submission, we expressed concern over the very tight timeframe for tranche 1 proposals, particularly, the short interval between close of cross-submissions on the Paper and the publication of the draft decision and reasons paper. We highlighted the ‘SAIDI_N’ methodology, set as part of the third default price-quality path (DPP), as an example of issues that can arise when consultation is inadequate.

20. We agree with the views of Unison and Centralines that:

“Historically we have found that allocating sufficient time to review of the technical drafting of IMs and DPP Determinations is important in ensuring drafting accuracy and avoiding ambiguity. We recommend that the Commission reconsider its proposed process steps to ensure that sufficient time is available to develop clear and unambiguous requirements that deliver consistent information from EDBs.”¹⁴

2.3. CUSTOMER CHARTER

21. In our submission, we recommended that the Commission abandon its stand-alone proposals Q2, Q3, and Q4 in favour of requiring EDBs to develop a customer charter that “*should, as a minimum, set out each EDB’s approach to the following matters, and provide information where more detailed information can be found (if any):*

- *Consumer consultation;*
- *Public safety;*
- *Property access;*
- *Service levels;*
- *Inquiry and complaint management; and*
- *Customer compensation (if applicable).”¹⁵*

¹³ Ibid. p10.

¹⁴ Ibid.p4.

¹⁵ Ibid. Paragraph 39, p10.

22. We note that Orion supported our views regarding customer charters, stating that:

“It is in the best interest of each EDB’s business to engage with customers directly. We would support a customer charter although we would require further high-level guidance on the content of the charter.”¹⁶

2.4. INNOVATION

23. In our submission, while providing provisional support for proposal D4 (innovation), we recommended that it be deferred to tranche 2 to allow for further development of the proposal, and to facilitate more informed feedback.

24. We noted Trustpower’s views on EDB innovations:

“As new technologies are developed for distribution networks, the duplication of these types of trials by up to potentially 29 distributors will potentially create unnecessary costs for consumers. As a result, we strongly support the Commission developing arrangements that would result in key learnings of any trials funded under part 4 allowances being publicly shared.”

25. We support Trustpower’s views, which reinforce the need to defer proposal D4 to tranche 2 to allow sufficient time for deeper consideration.

2.5. NON-NETWORK ALTERNATIVES

26. Our observation is that some EDB submitters recognised the benefit of providing greater transparency on actual and forecast network constraints, as described in proposal D3, and greater disclosure of investigations into the use of flexibility resources (proposal D5).

27. We note Trustpower’s views that:

“A key enabler for flexibility services will be the provision of information by distributors on the potential value of a non-network alternative providing the necessary network services.

There is currently limited transparency the value of non-wires alternative/flexibility services to distributors which we consider is likely to be limiting the development of this market more generally.”¹⁷

28. We are unsure as to Trustpower’s intent; however, it appears that it would prefer EDBs to disclose the avoided cost of network investment that would result from successful deployment of non-network alternatives. It seems to us that such an approach would allow flexibility traders to price up to the cost of the counter-factual network solution, which is likely to erode the benefit to consumers from a robust competitive procurement process. For the avoidance of doubt, however, Aurora Energy would have no issue with appropriately disclosing to participants in the procurement process how their proposal was assessed against the network

¹⁶ Orion New Zealand Limited. (2022). Electricity Distribution Businesses Targeted Information Disclosure Review. Paragraph 19, p4.)

¹⁷ Trustpower Limited. (2022). Trustpower Submission: Targeted Information Disclosure Review for Electricity Distribution Businesses. p2.

counter-factual and, potentially, feedback on their offering against the successful non-network solution (if any).

2.6. PRICING

29. We disagree with the views of the Major Electricity Users' Group (MEUG) that standardising price components (proposal D6) is of such importance to decarbonisation that it warrants being re-prioritised to tranche 1, for two reasons:
- Firstly, as we pointed out in our submission, distribution pricing is not within the Commission's remit¹⁸ and the Electricity Authority is overseeing (in accordance with its statutory objective) a programme of distribution pricing reform, in which the vast majority of distributors are actively participating. It would be inappropriate for the Commission to pre-empt the outcome of distribution pricing reform by speculating which pricing components should be considered 'standard'; and
 - Secondly, a key purpose of distribution pricing is to incentivise consumer behaviour that is aligned with the circumstances and needs of the EDB. While the bulk of EDBs might land on common pricing structures, which could in time be considered 'standard', there needs to be adequate scope for EDBs to adopt pricing structures that are tailored to their needs. The key, whether pricing components are standardised or not, is to ensure that consumers can understand the price signal(s) and respond to them.
30. We reiterate our view that the Commission should let the Electricity Authority get on with its distribution pricing work programme and if, through monitoring development of distribution pricing, the Commission has lingering concerns, it should engage directly with the Electricity Authority to determine how its concerns could be resolved.

¹⁸ The Commission is entitled to require pricing matters to be reported within ID; however, it should not be trying influence pricing outcomes (methodologies, pricing structures, etc.) as that is the purview of the Electricity Authority.

3. MATTERS OUTSIDE ID

31. Some issues were raised by submitters that, while related, fall outside of the ID review. However, Aurora Energy considers that the issues are important, and that they should be noted by the Commission for consideration at the appropriate time.

3.1. INFLATION FORECASTING

32. Unison and Centralines made the following observation regarding cost escalation:

“We are currently observing eye-watering increases in metal prices, fuel etc that proportionately affect EDB input costs more than the wider economy, so having a richer insight into these areas is likely to have benefits for future DPP resets, especially DPP5 where time series information would be available to compare against all-industry measures. Even in DPP4, understanding the significant shifts we are seeing in input costs would likely be critical if the Commission were to continue with approaches such as the 120% cap on increases from historical average capex.”¹⁹

33. We agree with Unison and Centralines, and consider that there have been systemic inadequacies in inflation forecasting for non-exempt EDBs as part of the DPP framework. We consider that further work is required on this topic, as we approach the fourth DPP reset, to ensure that a more effective approach to inflation forecasting is developed – one that does not heavily advantage consumers or EDBs according to the economic conditions that prevail within the DPP period.

3.2. OPEX STEPS

34. The issue of increasing regulatory burden should be a relevant consideration in determining how much information should be disclosed by EDBs. However, actually accommodating the effects of heightened regulatory burden is an issue that arises during the setting of price-quality paths.

35. Unison and Centralines have noted that:

“A further feature of DPP resets has been the fact that opex allowances have been constrained to trend allowances for growth in network length and customer numbers, but no “steps” have been allowed for. Unison and Centralines submit that consideration should also be given to better data capture related to new or revised regulatory requirements leading to new costs for EDBs.”²⁰

36. Aurora Energy agrees with Unison and Centralines, and considers that the Commission will need to determine changes to its approach to opex forecasting so that step changes are accommodated. With the looming changes to the distribution sector, driven by decarbonisation and increased use of non-network solutions, we

¹⁹ Ibid. p3.

²⁰ Ibid. p3.

cannot foresee a future where 'base-step-trend' forecasting can be sustained if the settings are so conservative that 'steps' cannot be recognised.