

20 December 2017

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

Response to the Commission open letter on priorities, 9 November 2017.

Dear Rob

Thanks for the opportunity to provide feedback on the Commission's open letter headed 'Our priorities for the electricity distribution sector for 2017/18 and beyond'.

We appreciate the open way that the Commission is approaching its priorities and work programme, and we value the opportunity to assist the Commission to shape this important work.

Overall, we are encouraged by and support the Commission's priorities for the remainder of the year ending June 2018 and beyond. These priorities align well with matters that ENA members see as warranting attention as we move towards the 2020 DPP reset.

As we approach the 2020 DPP reset, the ENA supports the objective approach the Commission is taking to assessing the impact of technology on the sector. This issue first emerged during the 2015/16 IM review and it will continue to be important as the regulated electricity sector makes decisions on future investment.

We provide specific feedback on your open letter as follows.

Customer engagement

ENA members have a strong appreciation that customer engagement is fundamental to informing many aspects of distribution businesses, including asset planning and expenditure. There is a growing experience of how this can be done more effectively, although research from CSIRO continues to indicate that engagement with consumers on energy matters, including price-quality trade-offs is challenging as consumers have limited interest in engaging or may have limited the capability to

make meaningful sense of potential options. Advances in behavioural science, however, are assisting in improving consumer understanding.

Members are mindful of the need to better understand the price-quality trade-offs that different consumers have, and that services provided from distribution networks need to reflect these consumer preferences. This understanding is being further developed by EDBs as they progress towards the implementation of new distribution pricing methods and the knowledge gained through improving asset management and performance. We feel that consumer engagement will bring benefits to members as the Commission moves forward with its new priorities.

One of ENA's six key objectives is to be 'Customer facing - Encourage customer-facing businesses by developing positive interactions with energy consumers.'

To this end, ENA has a growing consumer engagement working group which facilitates knowledge sharing and external support for interested members. ENA has also mapped and met with consumer stakeholder groups and commissioned consumer research using focus groups in three diverse parts of New Zealand, with more planned. We expect this research will be a key qualitative input to the Commission's work in this area

ENA members are also learning through the successful interactions of its individual members – with the Powerco CPP process the most obvious example in 2017.

Asset management practices

ENA members support the growing level of engagement with the distribution sector that the Commission is demonstrating, and they look forward to an enhanced relationship. The environment within which this maturing is taking place is constantly evolving, as technology and market changes reshape the role of traditional distribution network assets. These changes also present opportunities and ENA members look forward to working with the Commission as its objective interest in how technology changes will reshape asset management practices and sector performance.

Asset management practices and technology advances go hand-in-hand. EDBs shouldn't be locked out of new technology on the supply side.

1. New technologies have been and will continue to be an increasingly important part of the distribution of electricity.
2. They create customer benefits/opportunities on both the supply and demand side.
3. New technologies exist in many forms.
4. New technology offers the opportunity for EDBs to deliver the same service more efficiently, or an enhanced service at the same cost, or new services with added cost. For example;
 - a. enhanced safety – network management systems and protection systems
 - b. maintaining reliability more cost effectively
 - c. enhanced DG hosting capability with efficient use of the new inverter functionality

ENA members are supportive of the Commission's desire to better understand asset management practices. As the Commission develops its views on this topic, it must engage further with EDBs to generate a shared understanding of the role of new technology in this context.

Access to information

Enhanced information availability will assist the transition in how the Commission and the sector engage through this period of change. It is important however that the information is useful and usable and that both the tools and the performance measures themselves are fit-for-purpose.

In thinking about the Commission's approach to the use of disclosed information on EDB performance (either through simple ratio analysis or using the new PAT online tool), ENA members consider that performance metrics should be looked at in conjunction with the circumstances of the individual business. Members are however mindful that this is what makes peer groupings difficult, and accordingly we are keen to work with the Commission to develop meaningful comparison metrics with an associated narrative.

We share the Commission's view that it is important that stakeholders have a shared understanding of the state of networks and have assurance that services will be delivered in a reliable and sustainable manner. This critically relies on EDBs having high quality data on the state of their assets, derived from asset health monitoring systems and appropriate testing regimes.

This is an evolving area, with such standards as ISO55001 being relatively new in guiding best practice asset management, and new technologies being developed to provide advanced distribution management (e.g., deployment of sensors and communications systems to provide real-time information on the state of critical assets).

Views on asset health can change over time as better data becomes available (for example, moving from simple, traditional pole testing methods to mechanical and vibration analysis tests can result in a substantial variance in assessments of remaining life expectancy), so it is important that sufficient information on asset management and maintenance methodologies exists to support the veracity of reported asset health information.

Accordingly, when making comparisons between EDBs it is essential that there is an appraisal of the quality of systems used to determine asset health information. We support the Commission engaging with EDBs to ensure that when asset health and performance information is being prepared that there is opportunity to provide context for the information being presented, particularly when it involves comparisons of data between groupings of EDBs.

Another important point regarding information centres on the Commission's new one-pagers, which include dash-board style indicators on the 'estimated state of assets'. It is important that dash-boards do not over-simplify information. For example, the Commission's dash-board dials attracted negative media comment because they directly linked asset age to asset quality. Though there is a link between the two, there are many other factors which influence asset quality – including the load on the asset over life, switching frequency of relays and tap changers, ambient temperature, and presence of moisture and salt. Over-simplification of information will lead to false assumptions.

CPP process improvements

A CPP "lesson learned" review of the Powerco CPP process will help shape the questions that the Commission should consider under this priority.

Powerco advise that there could be a significant number of possible DPP focus areas that flow from the CPP process and that Powerco will consider its suggestions and engage with the Commission during the formal reset process.

Compliance monitoring

We would also encourage the Commission to publish the enforcement guideline and provide certainty for industry as to how the Commission will use the tools it has available.

Whilst we are supportive of the Commission's review and its feedback regarding AMPs, to be useful, this needs to occur in a timely manner so that members can take the Commission feedback and apply them in the next AMPs; i.e. ENA members will need to know in May/June 2018 for the feedback to be useful ahead of the 2020 reset.

Focus areas for 2020 DPP reset

The ENA Regulatory Work Group recently agreed to establish two workstreams to consider:

1. Quality of service matters, and
2. Wider implications of the change to a revenue cap form of control

We have provided the Commission with the terms of reference for these groups and extended an invitation for a Commission observer on the quality work group. This work group process was an efficient mechanism for making a material contribution to the 2015 reset. Members consider it essential to repeat this process ahead of the major changes from 2020. It is also likely that the reform of distribution pricing will be well underway across the membership at that time, adding to the importance of 'getting it right'.

The focus of our workgroups aligns well with the areas the Commission has described in its open letter. Your 3.1 and 3.3 in the Attachment are matters that fall into our revenue work group while your 3.2 is central to our quality workgroup. Overall, we consider the matters you describe in sections 6 and 8 of the Attachment capture the issues that we should jointly consider. A focus for us are the difficulties in translating consumer preferences into regulatory rules and the role of new technologies in network planning.

Vegetation Management

Your open letter mentions vegetation management in the context of spend-to-opex. Any profile on the cost of controlling vegetation management is welcome, but this does not go nearly far enough.

Vegetation management is a significant cost to many EDBs - under the tree regulations, they are required only to carry out a first cut but in practice, many are forced to take much greater responsibility for control of vegetation to protect their networks and therefore reliability of service to consumers.

ENA has independent research putting the cost of vegetation management at up to \$80 per consumer per year for some networks. But this cost does not capture the full impost related to value of lost load, repairs to damaged lines, and the risks to people and properties.

Vegetation can fall, or blow onto lines, from outside the regulated trim zones, especially during weather events. This results in network outages and significant cost on networks required to repair

damaged lines. The Commerce Commission, for the benefit of consumers, could do a lot more in encouraging solutions to the problems with vegetation, in particular, helping deal with the ineffectiveness of the tree regulations.

The Ministry of Business Innovation and Employment has been charged with reviewing the effectiveness of the tree regulation in 2017/18, but with the year nearly half over, we are still waiting for any visible action. If the Commission is serious about improving the reliability of networks, it should join ENA in taking a strong position and advocate for improvement in the ability for EDBs to reduce their vegetation management-related outages and costs.

Customer Service Lines

In addition to the matters you have raised, we also think consideration needs to be given to the involvement of EDBs in managing or maintaining privately-owned (or 'customer') service lines. Though we appreciate the importance of your focus on EDB asset investment levels and associated incentives, sharing that knowledge with stakeholders, and using this information to adjust your regulatory approaches, this approach ignores the quality of customer service line assets and their impact on public safety and electricity delivery via distribution lines.

The Commission cannot ignore the significant and worsening problem associated with these privately-owned network assets. If there is a death or serious injury involving a customer service line, the consequences, and liability, will ripple across the entire electricity sector – regulators included. ENA's strong legal argument in 2016 to allow EDBs to recover the cost of urgent maintenance on customer lines, was rejected by the Commission, which suggested the ENA work instead with the Ministry of Business Innovation and Employment. This engagement has happened but there has been no meaningful progress from MBIE to date.

We remain concerned about the state of these assets and would welcome opportunities to collaborate across the various public-sector agencies who have an interest in this area, potentially by way of some multi-agency working group.

The grid edge

Communications systems and procurement models will need to be developed as the grid edge becomes the means for delivering new capability and new services, including the option for third-party services. It is important to enable participation as existing ripple control systems are unlikely to be the means by which such network alternatives are triggered.

We think there will need to be concerted industry effort to develop the platforms, which will require resources and funding from distributors to enable it. It is important to recognise that such R&D expenditure is not currently funded through the price path and EDBs should not be left out-of-pocket in developing opportunities for others in the industry to benefit from. One of the challenges we will need to meet is the difficulty of assessing the expenditure required to enable new market platforms to be developed to enable distribution alternatives.

The other key area that the Commission needs to address is incentives to procure rather than own. Procuring network alternatives from third parties provides the network with no return, and indeed there is an opex IRIS penalty from procurement relative to direct investment. The Commission needs

to eliminate the current bias towards capital expenditure otherwise EDBs will rationally want to own their own network alternatives rather than procure (even from its own affiliate).

Closing Comments

Overall the ENA considers that an open consultative process will serve the Commission best as it develops these work priorities. It looks forward to working with the Commission as it further shapes this programme of priorities and better understanding distribution sector performance.

Again, thank you for the opportunity to provide feedback.

Yours sincerely

A handwritten signature in black ink, appearing to be 'D. de Boer', written in a cursive style.

David de Boer

Principal Advisor Pricing and Regulation