19 December 2023

Default price-quality paths for electricity distribution businesses from 1 April 2025 – Issues paper

Electra Limited (Electra) welcomes the opportunity to submit to the Commerce Commission *Default price-quality paths for electricity distribution businesses from 1 April 2025 — Issues paper*, 2 November 2023 (the DPP4 Reset Issues Paper). Nothing in this submission is confidential.

We own and operate the electricity lines and assets in the Kāpiti Coast and Horowhenua districts, serving over 45,700 connected customers (consumers). We are 100% locally owned by the Electra Trust for the benefit of local consumers. We are an exempt electricity distribution business (an exempt EDB) under s54G(2) of the Commerce Act 1986 (the Act).

Accordingly, our exempt status means that issues raised by the DPP4 Reset Issues Paper do not directly impact us. But that is not to say that we are not interested in the DPP reset. We shadow the framework where practicable so that we meet the Commission's expectations of a well-run EDB.

The focus of our submission is on ensuring the DPP provides appropriate and effective mechanisms to enable innovation. In particular, we focus on the issues of:

- access to smart metering data to support the efficient planning and operation of distribution networks as distributed energy resource (DER) uptake increases;
- accounting for the non-performance of non-traditional and innovative solutions; and
- publishing a process (or a guide) for the ex-post assessment of the innovation and non-traditional solution allowance.

Our views on all matters are expressed in the industry feedback provided by the Electricity Networks Association (ENA) in its submission.

Access to smart metering data

The Commission has recognised that there are step changes in expenditure that are outside of EDB's control and largely unavoidable, such as DER, which is likely to impact the planning and operation of our low voltage (LV) network.[1] And that access to smart metering data is essential to informing the necessary planning and operation of efficient electricity distribution networks.

The Commission has stated that it would consider applying a step change for LV monitoring where an EDB can demonstrate:

i. that step change is not within the EDB control;

ii. the costs are not covered elsewhere in allowances; and

iii. that step change meets the robustly verifiable and significant criteria.[2]

In 2022, the Commission approved the cost of obtaining smart meter data as an opex step change related to data for LV monitoring in Powerco's transition to the 2020-25 DPP[3]. Referring to the Australian Energy Regulator's (AER) decision to include the purchase of smart meter data as a step change to the South Australian EDB, SA Power Networks, in the 2020-2025 regulatory period for LV Management Future Networks.[4] Following Powerco's demonstration of the prudency of the expenditure, the Commission was allowed to determine that the proposed cost estimates were reasonable.

Access to smart metering data is an ongoing issue that remains unresolved. We were pleased to see the Commission include the issue in its DPP4 Reset Issues Paper. However, it is concerning that the Commission considers it reasonable that the rates charged by meter equipment providers (MEPs) for smart meter data are at a level that can amount to a 'step change' in opex.

We have long been an advocate for access to smart meter data at no more than incremental cost. The reality that purchasing smart meter data can be at a quantum that amounts to a significant change in opex is concerning. The Commission's seeming acceptance of this premise appears to condone the MEP's market dominance in the provision of smart meter data and reduces EDBs' negotiating powers to obtain smart metering data at a reasonable price.

The MEPs are price makers, and the EDBs are price takers. Due to their relative size, the purchase price paid by the non-exempt EDBs will set the market rate. The current rates are materially above the incremental cost of providing the data. While non-exempt EDBs must justify the expense based on the benefit of having the information affords planning and operations to the Commission's satisfaction, exempt EDBs must justify the additional costs to serve to their consumer satisfaction. Consumers have less of an understanding of the need for this data than what the Commission has and are less likely to be satisfied with a step change in opex.

We question if such an outcome is in the long-term best interest of consumers. A better outcome for consumers might be found by the Commission investigating the cost of purchasing smart meter data and determining if that cost is reasonable or if MEPs are taking advantage of their market position.

[1] DPP4 Reset Issues Paper, paragraph D103.1.1.
[2] DPP4 Reset Issues Paper, paragraph D151.
[3] DPP4 Reset Issues Paper, paragraph D152.
[44] DPP4 Reset Issues Paper, Table D9 on page 126.

Accounting for non-performance of non-traditional and innovative solutions

We were pleased that the Commission is turning its attention to how performance under the quality standards might account for non-traditional and innovative solutions.

> '[The Commission] recognise that innovative approaches to capacity constraints may include a range of potential non-traditional and innovative solutions including non-network solutions, some of which may be less proven.'[5]

Such recognition could also be extended to the reliability and security of supply through reduced service during interruptions. Battery storage, for example, has the potential to enhance reliability and support the security of supply during interruptions, if not full service, then partial services. Battery storage, a non-traditional solution, might be effective on the remote parts of our network and utilised to improve consumer experience during interruptions.

Though we are not subject to the quality standards under the DPP, we do shadow the framework. Under the current approach, the SAIDI and SAIFI calculation for the interruption would include those ICPs with alternative or partial supply. These ICPs contribute to the overall SAIDI and SAIFI calculation despite those ICPs not being interrupted because they can receive services via batteries.

We are exploring if there is a way that the SAIDI and SAIFI calculations could take account of alternative or reduced services when calculating the interruption of SAIDI and SAIFI.

We believe excluding the ICPs altogether from performance is inappropriate. While these consumers may be receiving services, these services might be at lower than standard operating levels (e.g., half the installed capacity). However, equally including these ICPs in the interruption without consideration for partial supply is also inappropriate, as these consumers would not be entirely without services.

We agree with the Commission that –

> '[…] treatment of non-performance of less proven solutions may create a reticence by EDBs to implement these types of solutions and result in a focus on more proven established technologies, typically, capex investments.'[6]

We do not believe that compliance with the quality standards and penalties under the quality incentive scheme (QIS) acts as a potential impediment to innovation. But equally, we do not believe they are enablers either. Electra is not subject to the QIS, and yet we still have impediments to innovation. The lack of an established method by which to value the consumer benefit of investing in non-traditional solutions, particularly those solutions that are yet to be proven, means we must accept a level of risk on behalf of the consumer when investing in these solutions. Risk includes stakeholder perception that we are not operating as a well-run EDB because we have no basis on which to measure whether a well-run EDB would have made the same investment.

The Commission expanding its thinking on accounting for the potential non-performance of flexibility services, whether they be external or internal, could be an enabler for all EDBs (i.e., exempt and non-exempt) to explore non-traditional solutions more fully. We encourage the Commission to include this issue in its intended industry workshops to explore solutions through the collective experience of EDBs, providers of distributed services, and the Commission.

[5] DPP4 Reset Issues Paper, paragraph F97.

[6] DPP4 Reset Issues Paper, question 21 on page 46.

Innovation and non-traditional solution allowance

The Commission has introduced an innovation and non-traditional solutions allowance as a recoverable cost into the Input Methodologies[7], which is encouraging. As we understand it, the innovation incentives in the current DPP3 (1 April 2020 to 31 March 2025) have had the effect of constraining the participation of non-exempt EDBs in innovation projects. The constraint is caused by the uncertainty that the EDB can recover the costs of innovation projects.

Exempt EDBs cannot innovate alone; to be successful, we need our peers to be able to participate fully alongside us. The introduction of the allowance goes some way toward supporting innovation by non-exempt EDBs; however, granting the allowance requires ex-post approval by the Commission. At this time, the Commission has yet to release the process under which it will assess and grant the allowance.

We encourage the Commission to release an innovations and non-traditional solutions allowance process or a guide as part of the DPP4 reset. The lack of an understood process makes it uncertain when non-exempt EDBs will recover the innovating costs and when not. Over time, the Commission's views will be established as non-exempt EDBs apply for the allowance, and their projects are accepted or rejected, as the case may be, but this precedent will take time.

The uncertainty of the recovery of the allowance makes it less likely that the introduction of this recoverable cost will promote innovation to the extent that the Commission envisions. The inclusion of an innovation and non-traditional incentive allowance gives non-exempt EDBs permission to innovate and the potential to access essential funding. However, funding is not guaranteed; the risk remains with the non-exempt EDB that its innovative or non-traditional solution will not meet the Commission's expectations, and the expenditure will not be recoverable. This inherent risk is likely to hamper participation by non-exempt EDBs in innovation and non-traditional solutions. In turn, this reduces the expertise pool that the industry has available to it.

The participation of all EDBs gives us a plethora of experience, skills, and operational circumstances, which is a powerful collective experience. It is by tapping into this experience that EDBs will be able to develop more efficient electricity distribution services, especially non-traditional services, which, over time, may change the very foundation on which we provide our services.

Exempt EDBs would also benefit from the release of a process. We would use the process (or guide) to inform our decisions around funding innovation. There is a general misconception that exempt EDBs are 'free to spend without constraint'; this perception is not true. We must justify our expenditure to our consumers, and the certainty of the process (not the outcome) would give us an accepted 'good practice' basis on which to assess innovation projects and approve or reject them. This gives consumers comfort that the expenditure is justifiable and in their long-term best interests.

We recommend that the Commission consider supporting an 'innovation sandbox' whereby stakeholders can submit ideas and recycle ideas through autonomous participation and bottom-up innovation. Specific projects could then be ex-ante approved for funding by the

[7] Commerce Commission, Electricity Distribution Services Input Methodologies (IM Review 2023) Amendment Determination 2023, [2023] NZCC 35, 13 December 2023.

Commission, thereby giving non-exempt EDBs certainty that they will recover the costs of participating in that project.

Not all ideas will be submitted to the Commission as a sandbox project, not all projects submitted will get approved, and not all approved projects will deliver a tangible result. However, the sandbox approach gives stakeholders the foundation on which to share ideas that could result in projects that deliver services more efficiently and at lower cost. Funding such a scheme is in the long-term best interests of consumers.

Closing Comments.

Innovation is the key to the delivery of New Zealand's decarbonisation future. The time to start innovating was yesterday. The Commission has suggested changes to the innovation allowances under the DPP in its DPP4 Reset Issues Paper to support non-exempt EDBs to innovate. Still, we do not believe these will be enough to form a foundation upon which EDBs can innovate.

Access to smart meter data continues to be an issue. The Commission's proposal to allow EDBs to apply to the Commission for a step change in expenditure to recover the cost of purchasing smart meter data is well intended. We believe it has an unintended consequence of increasing costs to serve for non-exempt and exempt EDBs.

The innovation and non-traditional solutions allowance is ex-post, meaning the cost recovery of innovation projects is uncertain. While such an allowance has its place, it is not the only approach available to the Commission. We recommend the Commission include an ex-ante 'innovation sandbox' into the DPP and invite stakeholders to participate. Non-exempt EDBs would be permitted to recover the costs of innovation projects they participate in that have received ex-ante approval from the Commission.

The Commission has recognised that performance under the quality standards must consider innovative and non-traditional solutions to remain relevant. Though we are an exempt EDB, we would be pleased to contribute to discussions and workshops to consider further how SAIDI, SAIFI and the QIS might account for changes in service delivery these opportunities bring.

We hope the Commission finds our submission useful in reaching its final decision. We would be pleased to answer any questions and discuss further the views conveyed in our submission with the Commission at any time.

Sincerely

Sara Carter, Acting Regulatory and Pricing Manager