3 August 2022

Via email im.review@comcom.govt.nz

Tēnā koutou,

Powerco cross-submission on IM review process and issues paper

Powerco Limited (Powerco) welcomes the opportunity to provide a cross-submission on the Commerce Commission's IM review process and issues paper. Our cross-submission comments on issues

- that warrant consideration during the IM review that Powerco and the Electricity Networks Association (ENA) didn't raise in submissions, and
- are a lower priority than suggested by submitters, or we have a different view

Attachment 1 provides Powerco's detailed feedback. We look forward to engaging with the Commission and stakeholders in the next phase of the review.

If you have any questions regarding this submission or would like to talk further on the points we have raised, please contact Nathan Hill (Nathan.Hill@powerco.co.nz).

Nāku noa, nā,

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Attachment 1: Powerco's detailed feedback

Issues that we think warrant consideration during the IM review that Powerco and the ENA didn't raise in submissions

Confidence in investment decisions (Mercury)

Mercury submitted that subjecting sufficiently large network investments to a net benefit test, akin to Transpower's $20m major CAPEX threshold, would create transparency and provide confidence that investment decisions are consistent.

We agree that confidence in investment decisions is important. There are a range of ways to achieve this, including analysis, transparency and consistency of process. For example:

- a Transpower-like approach to the assessment of both the project and allowances could be considered, with these investments being removed from the capex incentive mechanism due to the scrutiny of the costs, and the impact on revenue requirements recognised appropriately. This could be ably supported by national policy instruments that support these investments (as they do for Transpower[1]).
- a regulatory investment test which provides more visibility over the process being followed and potential market engagement. We have previously submitted via different forums that this could have merit.

In either case, delivering these processes come with a cost. However, this can be mitigated by carefully designing any approach so that proportionate and appropriate analysis is applied to the situation.

Incentives to trial flexibility services (Meridian)

Meridian's submission urges the Commission to consider regulatory incentives to encourage EDBs to trial flexibility services and third-party services.

We support this suggestion. Using flexibility and third-party services is a new and potentially efficient way of solving network investment needs. But the market for these services is still developing. Standing up these processes and systems is resource-intensive and can slow the decision-making process. We see benefit from targeted incentives that support establishment of this capability and establish the market(s) for these services.

Support for mergers and acquisitions (Unison)

Unison submits that the revenue cap and IRIS mechanisms do not support the risks and the upfront investment associated with mergers and acquisitions.

[1] https://environment.govt.nz/acts-and-regulations/national-policy-statements/national-policy-statement-electricity-transmission/

We think a practical option is for the Commission to take an expedited approach to IM changes should they be needed. A market-like outcome is that the regulatory arrangements do not act as a barrier to merger and acquisition activity.

As the electricity distribution service becomes more complex (increase in scale and diversity of use), EDBs may need sufficient scale to implement significant technological changes. So, mergers and amalgamations may be the efficient way forward to ensure network companies can deliver the services consumers demand.

Unison has suggested that some expenses incurred by EDBs to develop the long-term business capability to support decarbonisation that is opex might be better treated through capitalisation and recovered from beneficiaries over time. We think this concept is worthwhile considering.

<u>Vector</u>

Powerco supports the following points raised by Vector.

Vector submission point	**Powerco view**
The current IM framework does not sufficiently incentivise innovation. Better incentives for innovation are needed to better promote the long-term benefits of consumers, particularly in terms of achieving better dynamic efficiency to deliver lower costs and a smarter network in the long term	We agree with Vector that the IM framework does not sufficiently incentivise innovation. We think the Commission can have confidence that setting more substantial incentives for innovation is the right decision because there is now a significant degree of certainty about the value, timing, and need for network companies to innovate and utilise new technologies.
The opex step change criteria have resulted in significant uncertainty as there is little guidance on what information must be provided to obtain a step change. Vector recommends ahead of the next DPP reset that NZCC publish guidelines on the information and clear guidance as to what it requires to assess an opex step change	We agree the step change requirements are unclear and that guidance would be helpful. Additionally, we think the Commission should review the step change criteria to ensure the requirements are still appropriate.

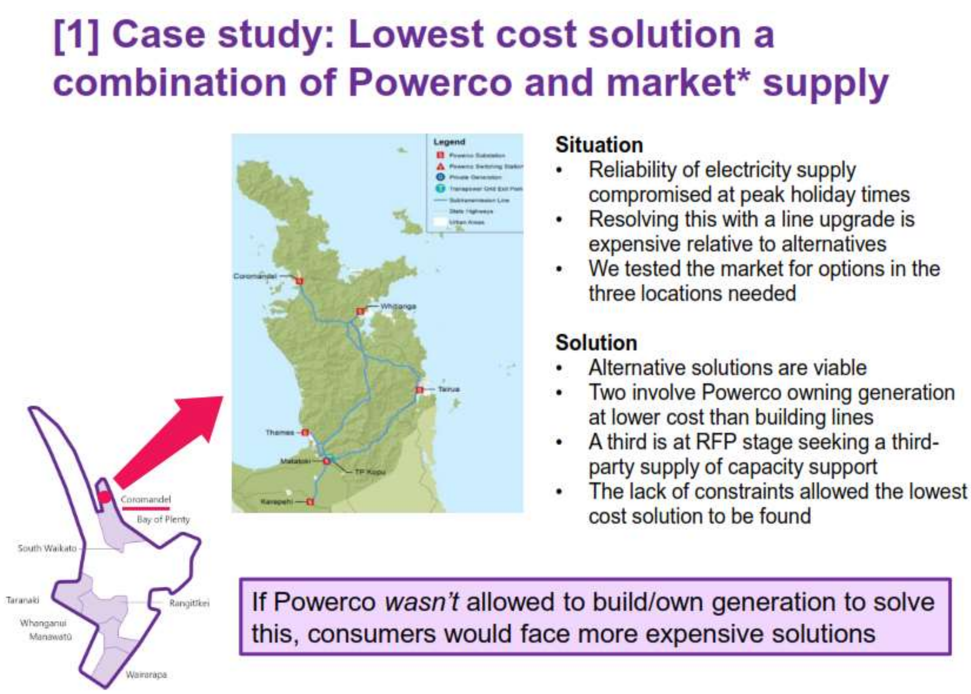
Lower priority issues (or we have a different view)

Several retailer submissions question EDB's involvement in and ownership of distributed energy resources. For example:

- Meridian. The Commission should resist expanding the scope of the regulated lines service into emerging contestable markets for batteries, electric vehicle charging control, or other sources of demand flexibility.
- Contact. The Commission must clarify whether DER assets are within the s 54C definition of lines services and can therefore be included in the RAB.

We appreciate the concerns of market participants in this space. Our 2021 submission on the Electricity Industry Bill described an example of the consequences of ring-fencing *how* a service is provided. Powerco went to market for options in the Coromandel and was left needing to install generation (DER) because the market did not provide. This was summarised in our presentation to Select Committee in 2021 in the context of moving parts of the Act to the Code administered by the Electricity Authority.

The relevant material is on slide 6 of that submission, repeated below. Key point: if Powerco was ring-fenced from solving the issue with a cheaper option, that is DER, then consumers would face a more expensive solution (or no solution at all).



Source: slide 6, Powerco submission to Electricity Industry Bill, 2021

Full submission available at https://www.powerco.co.nz/who-we-are/disclosures-and-submissions/submissions

More broadly, our views on EDB's involvement in and ownership of distributed energy resources is:

- This question was considered during the last IM review. We are not aware of any new information to support reconsideration.
- It isn't necessary or desirable for distributors to be ring-fenced from providing contestable services. If distributors can most efficiently provide those services, then regulation should support that in the interests of consumers.
- There can be practical reasons why the EDB is the only party that can provide the solution, as illustrated above.
- Where it is pragmatic (timing, cost, circumstance, operational issues), EDBs plans should consider non-network options, and any associated contestable processes/markets. The Commission's draft information disclosure decision released on 3/8 2022 contains requirements for this.