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Process and Issues/ Draft Framework Submission - ETNZ

ETNZ - The Energy Trusts Association - represents the trust owners of electricity distribution businesses throughout New Zealand.

As the organisation representing consumer and community owners of EDBs, ETNZ has both an asset owner and a consumer perspective in making this submission.

Our address for service is

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Our position summarised

While most of our members are exempt from price/quality control, trust ownership ensures that they are focussed on outcomes that reflect the Commission's consumer benefit objectives. As responsible asset owners, trusts must also evaluate their companies' investment strategies in the light of trends and regulatory pressures across the electricity distribution industry.

We recognise the need for a step-change in electricity supply strategies if current climate change objectives are to be realised and, in particular, we are keen to see the IMs regime adapt now to promote this with minimal disbenefit to consumers.

Our submission addresses the following:

- Consumer impacts and investment uncertainties

- Incentives
- Longer term demand risk

Consumer impacts and investor uncertainties

The Process and Issues paper highlights the future of rising costs and long-term supply risks that electricity consumers are facing and acknowledges the importance of bringing the IMs into a climate-related framework.

We support this, and acknowledge the key role that trust-owned EDBs have to play, as recognised by the Climate Change Commission:

> Traditional ways of operating may not deliver the most efficient solutions at the pace required for the transition. The capacity and capability of electricity distribution businesses (EDBs) or lines companies will be important. [1]

The implications for consumers of increased climate change abatement costs being added to the significant increases in costs of equipment, capital and (probably) labour facing transmission and distribution are disturbing.

As responsible asset owners, trustees must take these costs into account when evaluating investment proposals by our companies, and to also look at how dividends from those companies might best be applied to achieve optimal consumer outcomes.

From our perspective there is a need for much more clarity on how the wider regulatory regime will prioritise the behaviours that the IMs are being structured to encourage.

(a) Uncertainties that discourage decarbonisation investment

Given the urgency being felt across government agencies to give primacy to decarbonisation we feel that the relationship between the Commission and the Electricity Authority should explicitly put this ahead of interventions that undermine or restrict investment behaviours that are consistent with the Climate Change Commission's objectives.

To illustrate this, we note and support the Commission's comment

[1] Climate Change Commission: Ināia tonu nei: "A low emissions future for Aotearoa" (31 May 2021), p. 282

5.115 We could consider alternative incentive mechanisms that encourage suppliers to manage demand rather than build more network capacity, when this is the more efficient thing to do.

The uncertainties created by some regulatory drives to exclude distribution from activities that may have an impact on the wholesale or retail electricity markets have a stifling impact on innovative measures to manage demand. It seems clear that distributors (and especially consumer and community owned distributors) differ from other parties in the electricity supply chain in not having a primary drive to maximise sales volumes, and yet there are ongoing pressures to discourage them from investing to reduce those volumes.

There have been numerous examples of the EA promoting measures to restrict distributors' 'intrusion' into energy-related investments, such as batteries, with a view to creating neutral EDB platforms where other parties with better market credentials will appear to undertake investments in new technologies etc. A similar example is the EA's campaign to eliminate Avoided Cost of Transmission (ACOT) incentives for distributors despite these being consistent with s54Q and providing a solid commercial drive to reduce energy demand.

This message to investors that EDBs and their owners may be confined to operating "platforms" where someone else may or may not invest in demand-reducing technologies creates another layer of uncertainty that could be removed or at least reduced by clarifying that achieving climate goals will be put ahead of less critical regulatory policy objectives.

Recommendation

Assuming that the IMs will have a decarbonisation element built into them we recommend that a parallel commitment be made along the lines that 'The Commission and the Electricity Authority have agreed that the position of investors responding to the IMs' signals to invest in research, technologies and assets that promote climate change abatement outcomes by managing demand will be recognised and supported when changes to the Code or other regulatory tools are considered."

(b) Uncertainties associated with upstream dominance

The paper makes the point that the demand-side expectations of consumers, government and industry are also increasing, particularly in the areas of decarbonisation of energy supply, consumer engagement in energy services, and uptake of new technology.[2]

While we don't at this stage have many views on the discussion in the paper on improving the IM's regime to reduce uncertainties for Transpower, the industry has long been overhung by top-down transmission priorities, such as the controversial TPM (e.g. the removal of peak demand signals) and the displacement of generators' grid transport costs to distributors.

This makes us wary of any 'creep' of Transpower's ability to cross-subsidise major industrial consumer investments through the TPM's 'Prudent discount' facility.

Here we note the comment in the paper:

8.25 Another potential issue arising from the decarbonisation workshop is whether a change in flexibility for Transpower is needed in the IMs applying to Transpower, while appropriately sharing risk between Transpower and consumers. This is an issue that we will address though our review of the Capex IM and through our review of the price path reconsideration mechanisms

> **Recommendation**
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> We recommend that the IM review specifically excludes any additional risks arising from the Transmission Pricing Methodology's Prudent discount provision from being transferred to other consumers.

Incentives

ETNZ has submitted several times on the minimal acknowledgement given to achieving the requirements of s 54Q of the Commerce Act:

> **54Q Energy efficiency**
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> The Commission must promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management, and to reduce

[2] 4.9.3 page 34

energy losses, when applying this Part in relation to electricity lines services.[3]

Given the drive towards achieving decarbonisation now, this has proved to be a far sighted and potentially very significant clause in Part 4.

Recommendation

We recommend that the IM's regime acknowledges the requirements of s54Q by referencing this clause specifically as a fundamental element in evaluating the impacts of those IMs.

Longer term demand risk

While the paper states that its focus is on Gas Distribution Businesses in its discussion of changing supply risk allocation, it also canvasses extending this to EDBs. We believe that the discussion should also recognise the reality of so-called Sovereign risk exposure when considering longer term matters, where there is a strong risk of legislated intervention when regulatory arrangements have been in place for a number of years.

The New Zealand electricity distribution sector has seen many examples of this, such as abolition of the power boards, line/energy separation, Part 4, low fixed charges, etc.

Craig Sanders
Chair, ETNZ

[3] Section 54Q: inserted, on 1 April 2009, by section 4 of the Commerce Amendment Act 2008 (2008 No 70).