

23 February, 2022

Tēna koutou

## **Ensuring our energy and airports regulation is fit for purpose**

1. The energy and airport sectors are in a period of transition and change, particularly in relation to the impact of climate change, the transition to a low carbon economy and the ongoing impact of COVID-19. Changes to consumer preferences, technology, and government policy are all expected to also affect these sectors in the short to medium term.
2. I am writing to you now as we are launching the statutory review of the input methodologies (IMs) and a targeted review of information disclosure (ID) requirements for electricity distributors. This letter recaps and provides an update on the preparatory work undertaken in 2021, along with an overview of the next steps for both reviews. Today, we have published a notice of intention to commence the review of IMs under section 52Y of the Commerce Act 1986.
3. These reviews offer important opportunities to work with the sector, consumers, and other government agencies to identify challenges and opportunities in the energy and airports sectors and to understand the role that our regulatory settings can play in helping regulated entities deliver the right outcomes for Aotearoa New Zealand.
4. I would also like to take this opportunity to provide you with a brief update on recent engagement and other work we have been undertaking across our wider Part 4 sector work programmes.

### **The Part 4 regime can accommodate change and remain fit for purpose**

5. We are committed to ensuring our regulations remain fit for purpose, as the external context changes. It is important that our rules and processes ensure that businesses have incentives to continue to invest and innovate to maintain reliable services,

while responding to changing consumer preferences, technology, and other environmental factors, including climate change.

6. Government and other regulatory policy also form part of the context for these sectors and our decisions. He Pou a Rangi (the Climate Change Commission) has published its final advice and the Government's response to it, in the form of the Emissions Reduction Plan, is due in May 2022. The Infrastructure Commission is soon due to give the Minister for Infrastructure a final strategy that sets a path for how New Zealand can overcome major infrastructure challenges, such as climate change. The Electricity Authority is also undertaking related work, which it commenced with its paper [Updating regulatory settings for distribution networks](#).
7. A key part of both reviews will be working closely with industry, consumers, including the Consumer Advocacy Council, and other government agencies to understand the issues as a whole. Your input will be vital in helping to identify the challenges and opportunities in each sector and in prioritising and evaluating potential solutions relevant to the Part 4 rules and processes underpinning our regulation.

#### **Seeking feedback on key issues — April 2021 open letter and December 2021 workshop**

8. On 29 April 2021, we published an [open letter](#) seeking feedback from stakeholders on priorities for energy and airports to inform planning of our work programme. The open letter focused on three key projects: the Part 4 IM review, the reset of price-quality paths for gas pipeline businesses for the third regulatory period beginning on 1 October 2022 (Gas DPP3 reset), and a targeted ID review.
9. In our open letter, we sought feedback from stakeholders on issues facing energy businesses and airports. We asked how we should prioritise these issues when planning our work programme in the near term, particularly considering emerging issues that relate to decarbonisation and use of new energy sector technologies (the “energy transition”), as well as the impacts of COVID-19.
10. Submissions gave us a good sense of the headline issues affecting businesses and other stakeholders in these sectors. Those received from gas sector stakeholders have already contributed to the analysis done as part of the Gas DPP3 reset project. Submissions from the airports and electricity sectors will be considered in the targeted ID review and IM review as applicable, as we consider how these issues intersect with our regulation and what work should be prioritised given our resources and role in the system.
11. Several submissions on the open letter focussed on the impact of decarbonisation on electricity lines services. On 7 December 2021, we held a workshop to examine in more depth how the regulatory regime should address this. A summary of the workshop and the written feedback we received are available on our [website](#).

## **Commencement of the input methodologies review and targeted review of information disclosure**

### **Notice of intention to commence the input methodologies review**

12. Today we have issued a notice of intention to commence the review of all Part 4 IMs under section 52Y of the Commerce Act 1986.
13. Section 52Y(1) requires us to review each IM no later than seven years after the date of publication.
14. During the previous IM review, most IMs were reviewed by December 2016. However, some IMs were reviewed during 2017, and the review of the Transpower Capex IM was not completed until May 2018.
15. We are intending to complete this IM review, including the Transpower Capex IM, by December 2023.

### **We will publish the first IM review consultation papers in Q2 2022**

16. A phase of problem definition is required before we begin to consider potential solutions. We are formally starting work on this problem definition phase today, building on the engagement with stakeholders throughout 2021 via the open letter and decarbonisation workshop.
17. Stakeholder input is vital to shape problem definition and throughout the IM review. There will be more information on how we will continue to seek input in a process and issues paper that we intend to publish in early Q2 2022.
18. Around the same time, we also intend to publish a paper on our proposed decision-making framework for the IM review. This will update the framework that we used to reach our decisions in the previous IM review. We intend to publish the final decision-making framework in Q3 2022, after considering submissions.
19. At the end of the problem definition phase, we expect to have a much clearer picture of the challenges and opportunities facing regulated businesses, and the problems the review should focus on. This will allow us to further develop our process for the remainder of the review.
20. While our review will be comprehensive and consider all aspects of the IMs, having a clear and common understanding of the problems that require particular focus will help us and interested parties to identify and evaluate potential solutions as we move into the next phase of the review.
21. We have proposed IM amendments as part of the Gas DPP3 reset currently in progress. If made, these IM amendments will apply to our decisions for the Gas DPP3 reset; the outcomes of the IM review will not apply to Gas DPP3, but only to future

DPP resets. The IM review is an opportunity to consider all Part 4 IMs, including any IM amendments made as part of the Gas DPP3 reset.

**We intend to publish a process and issues paper for the targeted ID review for electricity distributors in March**

22. Stakeholders have told us that there are some issues and opportunities that we should approach through changes to information disclosure requirements for electricity distributors rather than, or in addition to, any changes to IMs.
23. Many of these opportunities are driven by the changes that are happening in the electricity sector, or that relate to future improvements for setting the next price-quality path for electricity distributors, which the original information disclosure requirements do not appear to cover adequately.
24. Consideration of these issues is also important to ensure that the information disclosure requirements continue to meet their purpose of ensuring that sufficient information is readily available to interested persons to assess whether the purpose of Part 4 is being met.
25. So, we are launching a review of information disclosure requirements for electricity distributors which focuses on the following themes:
  - 25.1 measures of quality;
  - 25.2 decarbonisation;
  - 25.3 asset management; and
  - 25.4 alignment of ID with other regulatory rules.
26. We intend to prioritise and phase different elements of the ID review with a view to putting the highest priority changes in place for the next disclosure year, if practicable. To this end we expect to publish a process and issues paper in March/April outlining our proposed approach and seeking stakeholder feedback on issues and prioritisation.
27. If we identify amendments to the information disclosures requirements for electricity distributor businesses that should also apply to Transpower, we may consider making changes to the Transpower information requirements as part of the same process. Potential amendments to information disclosure requirements for other regulated sectors will be considered as a separate project.

## Other progress across the work programme since the open letter

28. We also continue to progress our other Part 4 work. In particular, we are working on our reset of the price-quality paths for gas pipeline businesses and continuing our analysis of the performance of regulated suppliers.

### Reset of the default price-quality paths for gas pipeline businesses

29. We published our draft decisions for Gas DPP3 and proposed related IM amendments along with associated reasons papers on 10 February 2022. Our final decisions will be published by 31 May 2022.

### Performance analysis

30. We are continuing to undertake summary and analysis of publicly disclosed information, and have recently published:

30.1 [Reporting of asset management practices by Electricity Distribution Businesses \(EDBs\);](#)

30.2 [EDBs' reporting on their readiness for decarbonisation;](#)

30.3 [Trends in gas pipeline business performance;](#) and

30.4 [EDBs' information disclosure database.](#)

31. We intend to begin our review of Wellington Airport's most recent price setting event disclosure shortly.

### Questions on this update

32. Questions on this update can be addressed to the following:

#### IM Review

Dane Gunnell  
 Manager, Input Methodologies Review  
 c/o [im.review@comcom.govt.nz](mailto:im.review@comcom.govt.nz)

#### Gas DPP3 reset

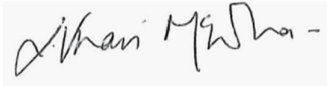
Matthew Clark  
 Price-Quality Regulation Manager  
 c/o [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

**Targeted ID Review, Performance Analysis, and Wellington Airport Price Setting Event**

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Manager, Performance Analysis  
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33. We thank parties again for their engagement to date and look forward to working with you as part of our upcoming processes.

Nāku noa, nā

A handwritten signature in black ink, appearing to read "Vhari McWha", is written on a light grey rectangular background.

Vhari McWha  
Associate Commissioner