

21 December 2021

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Dear Dane,

### **Invitation for comment - Workshop on the impact of decarbonisation on electricity lines services 2021**

1. Vector welcomes the Commerce Commission's ("Commission") invitation to comment on the decarbonisation workshop of Tuesday 7<sup>th</sup> December 2021. It was a great opportunity to express our views and hear from others on the priorities for the Input Methodologies (IM) review. Vector believes that targeted engagement on decarbonisation will be crucial to achieve the right outcomes for this process and as such proposes that an industry working group is set up for the Commission to meet regularly with EDBs and other industry bodies (Electricity Authority (EA), Energy Efficiency & Conservation Authority (EECA), Ministry of Business, Innovation and Employment (MBIE)). This has worked very well for the Gas Default Price-Quality Path (DPP) reset through the Gas Infrastructure Future working group where Vector has seen first-hand the benefits of this collaborative approach.
2. There was a real appetite in the workshop to keep the momentum going on the IM review as soon as possible (with Alpine Energy and Unison even calling the Commission to begin the DPP4 reset process early too). The IM review, with its final determination due end of 2023, will cover the period up to 2030, which is crucial to New Zealand's transition to a low carbon economy.
3. Meanwhile the legislative commitment to achieve net zero by 2050 is clear, now it just needs to be done in an orderly and affordable manner, leaving no customers behind. This can only be achieved successfully with the right regulatory tools at our disposal.

#### **Part 4 is no longer fit for purpose**

4. To that end the industry must review the Part 4 regime. This is a framework that was set up in 2008 for steady state regulation limited to price and reliability of service. This does not compute with the investment required for the decarbonisation of New Zealand's energy systems and the growing needs and demands of customers. There needs to be acceptance that the regime is no longer fit for purpose. Suppliers, regulators, officials, and other stakeholders must work together to redefine its outputs. This needs to be done with urgency so that the regime is adapted in time to enable us to meet net zero 2050.

5. Consequently, here are Vector's top three priorities as outlined in the workshop:
- a. **The Commission must state what they can and cannot achieve regarding enabling decarbonisation under the existing Part 4 regime.** This needs to be clearly articulated in terms of the enablement or hinderance of achieving net zero objectives. If the Commission's statutory regime cannot effectively enable decarbonisation and transformation, then significant changes for Part 4 need to be considered. The future of the electricity sector calls for regulatory and policy settings with a clear decarbonisation objective. If the Commission believes it cannot support decarbonisation within the current framework, then it must call this out.
  - b. **Assuming the current regime cannot support decarbonisation to the extent required. Then the regime must be changed.** This is best achieved through collaboration to redefine the Part 4 outputs required given the country's commitment to net zero 2050. This requires suppliers, officials, regulators, and other stakeholders working together to redefine the regime. Vector has the resources ready to drive this redefinition with decarbonisation insights, customer knowledge, and technical subject matter understanding.
  - c. **The changes (if any) required to Part 4 must then be enacted to deliver a regulatory regime which enables the achievement of our decarbonisation objectives with urgency.** These changes are essential in advance of the IM review and the 2025 DPP decisions.
6. Vector agrees with Pat Duignan's comments in his response to the Open Letter back in May 2021<sup>1</sup>. He suggests that:

*"The CC needs to itself determine (taking into account its split responsibilities with the EA) whether Parliament's imperatives regarding climate change and decarbonisation are compatible with Part 4. Specifically, the issue that the Commission needs to assess is whether the IM review, conducted in accordance with the provisions of Part 4, can address the issue of identifying (as far as feasible) and implement the optimal combination of network augmentation, rooftop solar panel generation and residential battery installation. This assessment needs to be made before the CC commences the IM review."*

7. The Commission could follow in the steps of the EA who recently published their Statement of Intent<sup>2</sup> including its strategic objectives in relation to its statutory obligations. One of their impact measures is "low-emissions energy" demonstrating the EA's commitment to decarbonisation within its statutory limits:

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<sup>1</sup> p.3 [https://comcom.govt.nz/data/assets/pdf\\_file/0026/256913/Pat-Duignan-5BMunro-Duignan-Limited5D-Response-to-29-April-Open-Letter-28-May-2021.pdf](https://comcom.govt.nz/data/assets/pdf_file/0026/256913/Pat-Duignan-5BMunro-Duignan-Limited5D-Response-to-29-April-Open-Letter-28-May-2021.pdf)

<sup>2</sup> <https://www.ea.govt.nz/assets/dms-assets/28/Statement-of-Intent-2021-2025.pdf>

*“The Climate Change Commission’s advice shows the need to electrify New Zealand’s heat and transport and increase low-carbon electricity generation. Making more use of New Zealand’s renewables advantage is essential in our transition to a low emissions economy. The required level of investment in new generation will be significant.”*

8. Recently the Infrastructure Commission reported that New Zealand’s population was estimated to grow by 1.2 million in the next 30 years<sup>3</sup>. Two thirds of this in five major centres and the most in Auckland. New Zealand is currently facing a significant infrastructure deficit and hence significant investment is required. This unprecedented growth again challenges the existing Part 4 regime.
9. The current regime also perpetuates silos. The regime should encourage regulators to consider the whole of systems metric of cost (WESC) when assessing investment decisions. The WESC was initially commissioned by the UK Department of Business, Energy and Industrial Strategy and was extended by the ReCosting Energy project<sup>4</sup>. The WESC shows the true consumer value of a technology investment. The current regime does not send signals which incentivise the most efficient investments for consumers as decisions and investments in our electricity system are assessed in strict market silos. These silos do not reflect the cost and benefits to consumers of decisions and investments made. Laura Sandys CBE described these challenges:

*“The current prescriptive regulatory model will not be able to survive in the multi-vector, multi-product world of the future, managing both sides of the meter. It will face enormous pressure to ‘catch up’ with innovations through derogations, will become increasingly confused if it aims to process regulate the multiple interactions, and find itself behind the curve in identifying bad behaviour”<sup>5</sup>*

### **The past does not reflect the future – the IMs must reflect this**

10. EDBs will have a significant role in enabling homes and businesses to achieve the country's decarbonisation targets. The Commission needs to adapt how it sets EDB returns and allowances to ensure that EDBs can invest as well as change their businesses as required to support the country's net zero objectives. For example:
  - a. Moving to unindexed cashflows which while NPV neutral provides cash earlier rather than later and hence being an enabler of investment
  - b. Moving away from the step and trend approach for determining opex

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<sup>3</sup> Figure 22 p.25 <https://www.tewaihanganga.govt.nz/assets/Uploads/Infrastructure-Challenge-Report.pdf>

<sup>4</sup> p.38 [http://www.challenging-ideas.com/wp-content/uploads/2020/12/ReCosting\\_Energy-Episode\\_2-Building\\_Blocks\\_for\\_Net\\_Zero-Challenging\\_Ideas.pdf](http://www.challenging-ideas.com/wp-content/uploads/2020/12/ReCosting_Energy-Episode_2-Building_Blocks_for_Net_Zero-Challenging_Ideas.pdf)

<sup>5</sup> p.6 [http://www.challenging-ideas.com/wp-content/uploads/2018/12/ReDESIGNING\\_REGULATION-final-report.pdf](http://www.challenging-ideas.com/wp-content/uploads/2018/12/ReDESIGNING_REGULATION-final-report.pdf)

- c. Moving away from capping capex allowances at 120% of historic spend
- d. Consideration of the whole of energy system cost when evaluating expenditure forecasts

11. In September 2021 Vector published its first Taskforce for Climate-related Financial Disclosures (TCFD)<sup>6</sup> around climate risk and opportunity. Vector's Symphony strategy is well placed to enable and help to accelerate the least cost decarbonisation of the New Zealand economy. Our TCFD scenarios are based on those of the Network for Greening the Financial System (NGFS), an international network of federal banks, including the Reserve Bank of New Zealand. Their reporting<sup>7</sup> contrasts "orderly" versus "disorderly decarbonisation" where a key difference lays in policies being introduced early to avoid high burden (including financial) on consumers.

12. Vector believes that to respond to the uncertainty of the scale and speed of the upcoming changes, more flexible regulatory mechanisms must be made available. These could be incentives that encourage and support innovation spending that enables the transition to net zero such as:

- a. Use it or lose it allowances;
- b. Re-openers that aren't application heavy;
- c. Quality standards that reflect changing customer expectations.

13. In response to the Commission's Open Letter in May 2021, Vector advocated taking stock of what regulators internationally are implementing to tackle decarbonisation objectives. Jonathan Brearley, the CEO of Ofgem described below in his speech at Ofgem's vision for a net zero future event in Oct 2020<sup>8</sup>, how the RII0-2 price control (equivalent DPP) will work:

*"We accept the need for more investment to get ourselves towards net zero, we accept that if you add on electric vehicles and think about the low carbon solutions for heat we do understand that we need more investment than in the past. That's why we designed this price control to be adaptable. It can change to make sure we can respond to the changing and potentially increasing demands that are going to be put on the network. We accept that we are going to have to work at pace to process those re-opener applications for new investment to make sure that the regulator doesn't become a blocker."*

14. In Australia also there is a similar sentiment around ensuring the right tools are in place. Anna Collyer, Australian Energy Market Commission (AEMC) and Energy Security Board (ESB) Chair explained in her speech to the Melbourne Energy Institute Symposium 21<sup>9</sup> on 3<sup>rd</sup> December:

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<sup>6</sup> [https://blob-static.vector.co.nz/blob/vector/media/vector2021/vector\\_tcf\\_d\\_2021.pdf](https://blob-static.vector.co.nz/blob/vector/media/vector2021/vector_tcf_d_2021.pdf)

<sup>7</sup> [ngfs\\_climate\\_scenarios\\_phase2\\_june2021.pdf](https://www.ngfs.eu/~/media/NGFS/2021/06/ngfs_climate_scenarios_phase2_june2021.pdf)

<sup>8</sup> <https://www.ofgem.gov.uk/cy/publications/ofgems-vision-net-zero-future>

<sup>9</sup> [Looking back at now: Viewing the energy transition through a future lens on Vimeo](https://www.youtube.com/watch?v=...)

*“What we want to do is to provide the right settings to encourage investment and confidence and, most importantly, innovation in both products and services as that’s what we’ll need to transform the sector.”*

### **Enabling the transition to net zero**

15. The transition required to decarbonise the sector cannot happen without transformation. Vector believes that the following components are essential on this journey:

- **Digitalisation** - instrumental in enabling consumer participation in the market not least through unlocking demand-side value and thereby the market power of consumers;
- **Data** – access to data is halting progress towards visibility of the low voltage network (crucial to the EV revolution). Data can optimise network operations, increase efficiency, customer insights, and better understand network utilisation and forecasting demand;
- **Customers** - we need to make the investments based on based on customer centric decisions based on forward projections rather than current customer demands;
- **Innovation** – the current innovation allowance is limited in scope and materiality, there are better ones out there (Ofgem’s Strategic Innovation Fund for RIIO-2 and the Australian Energy Regulator’s Innovation Sandbox);
- **Tracking what matters to New Zealand and New Zealanders** – such as monitoring the reduction of EDBs’ carbon footprints/ handprints (see Ofgem’s Environmental Action Plans for RIIO-2) and other customer value propositions.

16. As always Vector welcomes further discussions with the Commission on the content of this letter and looks forward to working constructively on the IM review to achieve the best outcomes for our customers.

Yours sincerely



**Mark Toner**

Chief Public Policy & Regulatory Officer