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22 December 2017

Robert Bernau
Head of Energy, Airports and Dairy Regulation
Regulation Branch
Commerce Commission

By email: regulation.branch@comcom.govt.nz

Dear Robert

Open letter on electricity distribution priorities

Further to Nick Russ's letter to Alison Andrew, we appreciate the opportunity to submit to your open letter *Our priorities for the electricity distribution sector for 2017/18 and beyond*, published 9 November 2017.

We support your initiative to use an open letter process to:

- build on the Commission's 2017/18 priorities by expanding on your priorities for regulating electricity distributors
- seek feedback on potential focus areas for your work in the distribution sector
- signal your intention to identify and disseminate 'lessons learned' from price resets and compliance activity
- explain your priorities for understanding performance, improving information accessibility and developing more efficient and effective regulatory process.

We consider that improved knowledge for electricity consumers on the performance of the electricity distribution sector could:

- highlight the impending reinvestment challenge for much of the distribution sector
- improve stakeholder understanding of quality and cost trade-offs
- empower consumers to make informed decisions about supply from existing and/or emerging technology.

As the Commission continues to plan for regulatory resets for the default price-quality path resets as well as the individual price path reset for Transpower, we would appreciate a timetable to 2020. The timetable could indicate key milestones and consultations to help sector stakeholders with their own planning and resourcing.

Our feedback on the Commission's priorities

We consider the Commission should continue to focus on the following four aspects of its indicated priorities.

Incentives to innovate: Consistent with our submission¹ to Powerco's CPP, we consider the matter of incentives to innovate is a statutory direction on the Commission under the Part 4 purpose. Innovation is a means to efficiency outcomes, and could be supported by flexible rules that do not overly prescribe processes.

Asset management practices: We agree with the Commission that asset management practices are important when considering the nature of regulation under Part 4 of the Commerce Act. We were pleased that the Commission highlighted our asset management as an example of maturing industry practice.

New technology, and new ways of working, create opportunities and challenges for regulated suppliers to innovate and identify more efficient ways to operate.

As we improve our asset management practices further, we anticipate engaging with stakeholders, including regulators, on new initiatives and trials to test new ways to operate and manage our assets. For example, our demand response programme is one example of the trials we are currently conducting. We consider the Part 4 framework should encourage pursuit of opportunities for innovation toward improved asset management practice.

Improve efficiency: We consider offering rewards to regulated suppliers for improving efficiency is a more effective way to drive good outcomes than relying on information disclosure requirements. In our view, incentives, combined with consumer engagement, can reveal the appropriate level of efficiency to flow through to consumer prices and quality.

Proportionate scrutiny principle: We agree with the Commission's view on the principle of proportionate scrutiny aimed at achieving balance between scrutiny and compliance cost.

Asset management plans are key communication tools

We consider that asset management plans (AMPs) are core to network companies communicating challenges and opportunities for investment. We welcome further engagement on the role of AMPs and the Commission's assessment of asset management practices. Benchmarking and comparative analysis can be used to inform review decisions and encourage evolution of asset management planning practices. However, we caution against over-reliance on this type of analysis.

We hope our feedback is helpful to the Commission's consideration of its priorities.

Yours sincerely



Catherine Jones

Regulatory Affairs and Pricing Manager

¹ Transpower, Powerco's CPP application and innovation funding, 22 September 2017.