27 May 2021

Andy Burgess
Head of Energy, Airports, and Dairy Regulation
Commerce Commission

By e-mail: regulation.branch@comcom.govt.nz

Dear Andy,

Electric Kiwi and Haast welcome the engagement on regulatory priorities

Electric Kiwi and Haast Energy Trading (Haast) welcome the Commerce Commission's engagement on emerging issues and work priorities in relation to its Part 4 Commerce Act responsibilities.

The challenge of electrification should be a focus area

It is apparent from the Climate Change Commission's recent consultation that changes New Zealand will go through, as part of decarbonisation and electricification of the economy, are going to create new challenges and opportunities for electricity networks and other market participants.

For example, we agree with the Climate Change Commission that the necessary actions to maximise the use of electricity as a low emissions fuel, include that: "electricity distributors are equipped, resourced and incentivised to innovate and support the adoption on their networks of new technologies, platforms and business models, including the successful integration of EVs" and "electricity remains affordable and accessible, and measures are in place to keep system costs down, such as demand response management".

The Climate Change Commission consultation highlights that if electricity networks don't handle these changes well it could result in considerable uplift of peak-demand relative to base-line or average network utilisation, resulting in substantial increases in network capacity investment requirements and upward pressure on prices. Handled badly this could undermine the move to electrification which requires that electricity is affordable.

This also highlights the overlaps in the Commerce Commission and Electricity Authority's roles. For example, the extent of unnecessary and inefficient network capacity investment requirements will be a function of how successful the Authority's transmission and network pricing reforms are at ensuring the cost of future network investment is signalled and load (peak:non-peak) is flattened. Our own experience with the 'free hour of power' highlights that pricing can be effective at load-shifting, with 20% of Electric Kiwi customers using 13% or more of their load during their selected free hour.

The Part 4 regime should evolve and expand from focus on incentives to invest and limiting excess returns to encompass a stronger focus on incentives to improve efficiency (including energy efficiency) and to innovate

These challenges could heighten the importance of section 54Q ("promoting incentives … to invest in energy efficiency and demand side management …") and the general Part 4 purposes to innovate, invest and improve efficiency.

We would like to see the Commerce Commission explore whether the current settings optimise or provide strong enough incentives for efficiency and whether specific mechanisms are needed for the section 54Q energy efficiency requirements. For example, do electricity networks have the right incentives to minimise costs (including future investment requirements) through opportunities such as 3rd party demand response to alleviate congestion, and ensure better utilisation of existing capacity before the need for capacity upgrades.

We feel that while some of the building blocks for price control have received a lot of attention – particularly the setting of the CAPM WACC formulae and determination of WACC percentile – which is important for ensuring regulated suppliers have incentives to invest, but are limited in their ability to extract excessive returns, now is the time to shift the focus to ensuring the right (strong) incentives to improve efficiency of network operation and find new and different ways of operating than the traditional model of building poles and wires.

For example, the Commission could undertake the same level of investigation into the optimal rate at which efficiency gains are shared (a trade-off between stronger efficiency incentives and consumers receiving their share of efficiency gains quicker) which it undertook to determine the optimal WACC percentile.

Concluding remarks

Looking at submissions electricity networks, such as Vector, have made on these types of issues, including the specific function of section 54Q, we don't consider our comments are likely to be contentious.

We would note though that while a lot of incumbent retailer focus on emerging technology has been on what electricity networks shouldn't be allowed to do, we are more interested in ensuring electricity networks embrace new technology and opportunities to do things differently.

We would like the to see the Commerce Commission's focus on ensuring electricity networks have the right (strong) incentives to find the lowest cost and most efficient way of doing things, whether that is relying on in-house options or arrangements which require reliance on 3rd party providers. This potentially includes, for example, that electricity networks take a holistic, TOTEX, approach that is agnostic or indifferent to capex or opex solutions and is focussed on whatever is lowest cost in the long-run. Also, while there 29 electricity networks, there are opportunities for collaboration and provision of joint services to improve efficiency. Every element of the electricity networks' operations do not have to be duplicated 29 times e.g. the electricity networks can share experiences and results from trialling battery technology.

Yours sincerely,

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