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Workshop - The impact of decarbonisation on electricity lines services 2021

Dear Dane

The Lines Company Limited (TLC) thanks the Commerce Commission (Commission) for the invitation to the Commission's workshop on 7 December 2021 to discuss submissions on the Commission's [April Open Letter](#) to further explore the impact of decarbonisation on the Part 4 regulatory regime and how work in response might be prioritised further.

TLC found the workshop very informative and acknowledge the Commission is engaging with the industry to jointly come up with solutions.

In this letter, TLC briefly discusses decarbonisation and the Part 4 regulatory regime, generally.

Significance of DER Integration into the Electricity System and Regulatory Settings

Distributed energy resources (DERs) can provide a range of benefits for the community and electricity systems which are not limited to:

- decreased costs for consumers and the power system;
- decreased emissions;
- the economic benefits from new business opportunities.

However, unlocking the full potential of these benefits in New Zealand will require:

- distribution systems to be ready, modern and innovative for high penetration conditions;
- closer coordination between distribution and transmission systems;
- regulatory settings to support DER integration; and
- incentivising DER uptake through pricing.

Without coordination, electricity systems risk being exposed to inefficient capital spending and operational challenges leading to unnecessarily high costs and potentially lower reliability. In an ideal world, efficient integration of DER into distribution and transmission networks, and DER participation in the wholesale market would lead to efficient investments not only by EDBs but also by transmission and generation businesses resulting in fewer stranded assets, hence lower cost of supply and lower prices for consumers.

Integration of distributed energy resources into the grid has dramatic implications for pricing, and hence, on consumers' affordability. Aggressive DER uptake has the potential to develop a decentralised/competitive energy market, empower consumers, and create a relatively elastic demand. The customers' access to energy efficiency and DER has already flattened demand in the USA, UK, and Australia.

We in New Zealand require fundamental changes in distribution planning. We need to proactively plan for DER-driven distribution upgrades rather than the upgrades to accommodate load growth. Long-term distribution investment forecasts need to account for DER development. A growing number of public utility commissions are requiring utilities to incorporate DER forecasts into their distribution planning, including incorporating DERs into load forecasting and generating hosting capacity maps.

We also require regulatory settings for DER participation in the generation market; as well as the development of a medium to long-term view on incentivising DERs through prices. These financial incentives can play a critical role in energy transition but the current electricity pricing structure in NZ is limited to balancing historic and future cost recovery.

Electricity distribution businesses and utility commissions around the world are aware that customers need to be incentivised to invest in solar, electric heating, and to commit to full or limited utility control of other smart DER like batteries, EV chargers, or smart inverters that will lower peak demand or increase reliability.

The Australian Energy Market Commission (AEMC) has already made a final determination on updates to the National Electricity Rules (NER) and National Energy Retail Rules (NERR) to integrate distributed energy resources such as small-scale solar and batteries more efficiently into the electricity grid. The rules include clear obligations on Distribution Network Service Providers (DNSPs) to provide export services and enable new network tariff options that reward customers. Also, DNSPs cannot offer static zero export limits to customers seeking to connect. We in New Zealand, also need to have clear DER sourcing and compensation mechanisms.

There is a need to develop an analytical framework that can help EDBs to compare traditional solutions with DER-based solutions in a consistent manner across EDBs. The framework should also be able to quantify the decarbonisation benefit.

The DER uptake in New Zealand is not as aggressive as in the USA, UK, or Australia. We have opportunities to learn how energy commissions and electricity providers around the world are working together to accommodate high DER uptake while ensuring electricity systems' readiness, reliability, and affordability. With all the initiatives on decarbonisation, we also need a clear strategy or regulatory requirement supporting and encouraging the DER integration in the distribution networks and the electricity system to realise the benefits of DER towards decarbonisation.

The Part 4 regulatory regime

TLC is owned by the Waitomo Energy Services Community Trust (WESCT) and is in the fortunate position of being a community-owned distributor of which we are very proud. As such, we consider the requirements of the community, particularly pricing and quality of supply, and provide support to the King Country community including through sponsorships, scholarships, communication,

education, and the MARU Trust. However, TLC does not meet the criteria in the Commerce Act to be considered as 'consumer-owned' and is non-exempt from price-quality regulation.

Being price-quality regulated means that the Commission sets the total revenue TLC can recover from its consumers and sets standards for the quality of service that TLC must meet. The incremental rolling incentive scheme (IRIS) within the regime does not however cater for TLC's circumstances.

The IRIS provides a mechanism by which suppliers that are subject to price-quality regulation can retain the benefits of efficiency gains beyond the end of a regulatory period. During the regulatory period, the supplier is rewarded with higher profits if the expenditure is controlled whereas, at the end of the regulatory period, the benefits of any efficiency gains are shared with consumers, including through lower prices¹.

The IRIS model anticipates that all regulated distributors price to their allowable revenues. However, where a distributor, such as TLC, chooses or cannot price to allowable revenue (for example, for community affordability reasons), the impact of the IRIS mechanism is perverse and compounds i.e. if a distributor does not price to allowable revenue during the regulatory period, the distributor is not 'rewarded' but still must share the efficiency gains through lower prices in future periods.

The Commission is soon to review the Input Methodologies (IMs). The purpose of the IMs is to promote certainty for suppliers and consumers in relation to the rules, processes, and requirements for regulation and contains the rules for IRIS.

TLC would like to raise this issue for consideration by the Commission during the IM review process. We look forward to participating and providing further feedback for the Commission's consideration when invited.

Yours sincerely



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¹ https://comcom.govt.nz/_data/assets/pdf_file/0028/62659/Final-reasons-paper-Incremental-rolling-incentive-scheme-IRIS-27-November-2014-.pdf