5 February 2021

Andy Burgess
Head of Energy, Airports & Dairy
Regulation Branch
Commerce Commission
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Dear Andy

Levy consultations 2020

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission (CC) discussion paper "Review of the Commerce Commission's funding for the regulation of electricity and gas networks under Part 4 of the Commerce Act 1986" published 10th December 2020.[1]

2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Some members may make separate submissions.

3. Discussion paper paragraph numbers are referred to in square parenthesis.

4. MEUG:

   a) Agrees with the Commission's assessment that future regulated energy monopoly work needs to consider increased expectations on the Commission and a changing energy landscape.[2]

      Chapters 2 and 3 could also have emphasised the change in the ability of more consumers to modify their demand for services provided by Part 4 regulated energy companies. This increasing dynamic end consumer behaviour, plus better metering, access to data will facilitate understanding of consumer preferences at a more granular level and hence an opportunity for innovation in line tariff design. This in turn will improve EDB and Transpower investment and operating decisions to better meet the demands of end consumers.

[1] URL https://comcom.govt.nz/__data/assets/pdf_file/0024/229830/Part-4-energy-levy-funding-consultation-paper-10-Dec-2020.pdf

[2] Question 2 in the discussion paper [40], Qu. 3 [59] and Qu. 4 [72].

b) Supports the Commission's proposal for the "bridging the gap" option and agrees with the proposed additional funding subject to one caveat.[3]

Following on from the comment in 4 a) above, chapters 4 to 8 give more consideration to the likely growing importance of line tariff designs and how that might intersect with the Commission's work. For example [78.1] lists one of the outcomes the Commission seeks for all electricity and gas networks by 2026 as:

> "have a good understanding of what their customers need, and what they are offering to their consumers,"

The only point we would add is this is urgent and 2026 is too late. For example, finalisation by the Electricity Authority of the Transmission Pricing Methodology to come into effect April 2023 must include co-ordination and alignment with the Commission's improvement of the Part 4 regime.

The discussion on "Efficiency" of regulated energy monopolies states [83]:

> "There is currently not significant evidence to suggest that networks are becoming more efficient."

MEUG suggests this is an understatement. The efficiency of EDB and Transpower we understand has been going backwards. To gain further insight on the scale of the lack of improvement in productivity problem the Commission should consider long-term efficiency gains in New Zealand compared to line monopolies overseas. We know benchmarking is difficult but the lack of efficiency improvements in one of the most important sectors in the economy requires better information to know how large the problem is to support resources needed and innovative regulatory approaches to be tested, and to measure if those are successful.

Finally, the one caveat with supporting the Commission's "bridging the gap" proposal and associated budget, is the review of Input Methodologies (IM) includes a more comprehensive review of the cost of capital (WACC) than the last review. MEUG raised several questions on cost of capital such as the proposal for a split WACC covering existing sunk investment and a higher WACC for new investment. That proposal was side-lined by the Commission. If the "bridging the gap" proposal includes a more detailed of WACC than the last review, then MEUG fully supports the Commission's proposal. If not, then MEUG supports the higher budget proposal for the IM review set out in [123] to [125].

Yours sincerely

Ralph Matthes
Executive Director

3 Questions 5 [87], 6 [112], 7 [125.3], 8 [134] and 9 [151].