Submission: input methodology process, issues and framework

The Commerce Commission has asked for views on the issues to be considered and the process for the input methodology (IM) review and the decision-making framework and key economic principles for deciding whether and how to change or amend the IMs.

The IMs are extremely complex. Cortexo and Our Energy do not have the resources to develop the detailed understanding required to suggest specific changes or amendments to the input methodology for electricity networks.

Our focus is on outcomes. First, we consider the IMs need to encourage actual innovation and forward-looking investment needed to avoid the credible and material risk the consumer experience in the coming years will be typified by ‘my power bills are already going up and my reliability has gotten worse! Now you want me to pay even more to reduce emissions, at the same time as telling me I cannot do my bit by connecting my PV and EV…’.

Second, we consider the Commission needs to clearly explain how the IMs have to date, and are intended to, affect practical outcomes for households and businesses. Currently, it is next to impossible for a consumer to know whether the IMs are working as intended.

The IMs need to encourage actual innovation and forward-looking investment

The Commission's decision on the IMs will have far-reaching effects on the cost of ensuring electricity networks have the capacity and capability to reliably deliver power to charge all the electric vehicles, to electrify space heating for homes and keeping buildings warm, to electrify industrial processes and to connect and deliver increased amounts of distributed and renewable generation.

The expectation that distribution costs and prices will increase significantly from 2025 before accounting for electrification-related investment is the number one issue to be managed through the IMs and DPP given the implications for affordability, reliability and the sector’s social licence.

We consider the current regulatory settings create a credible and material risk of a worsening consumer experience in the coming years.

Managing the impacts of rising network costs – business as usual and electrification-related – requires rethinking the mechanisms currently used to encourage investment, innovation and efficiency.

Incentives to innovate and improve efficiency of operations are obviously not sufficient. Otherwise, we would be seeing outcomes of a truly innovative environment, including acquisition activity and merger of distributors, creation of common operating companies and much more research and development activity.

Our observation is that innovation by distributors – trying new, different and cheaper ways of delivering the network service – is not BAU. As recently mentioned by Randolph Brazier to the FlexForum[1], there needs to be a conscious effort to encourage distributors to innovate and invest in new ways of doing things. Distributors currently do not have the funding, risk tolerance or capacity to do so. Available incentives are either insufficient or misunderstood with the result being worse outcomes for consumers.

The appetite to explore the use of flexibility is an example of the problem – there is very little because there is little to no incentive to do so. The efforts of some distributors should not be equated with incentives working. The Commission should dig deeper than the surface here. If it does, we expect the Commission to find that the efforts it observes actually rely on specific individuals within organisations choosing to act in spite of existing incentives.

There is no concerted effort by network operators in Aotearoa New Zealand to adapt their operating and investment practices as is being demonstrated by their peers in the United Kingdom, and to a lesser extent in Australia.

The broader implication is innovation and evolution of investment and operating practices to leverage the capability and benefit of DER and avoid the harms is hard, and significant pressure (via financial incentives or obligations) is required to avoid the inertia of the status quo.

For contrast, United Kingdom distributors have made significant progress through the UK Energy Networks Association Open Networks programme to transition to a smart, flexible electricity system which supports achieving zero-carbon goals at least cost. The rate and direction of progress reflects active involvement by the ENA, the distributors, the regulator, and the Government, as well as community stakeholders, including through availability of extra funding.

[1] FlexForum speaker series, Randolph Brazier, the UK Energy System and the Role of Energy Networks, https://www.araake.co.nz/services-projects/flexforum/flexforum-session-eleven/.

Achieving similar progress in NZ without extra incentives does not seem plausible if historical outcomes are a good guide to future performance.

A much bigger nudge is needed.

Explain how the IMs have and are intended to affect outcomes for households and businesses

The Process and issues paper says, “Outcomes are what ultimately matter for consumers”. We agree. However, it is very difficult to see the connection between the IMs and the practical outcomes experienced by consumers.

For example, it is not obvious how the IMs affect the day-to-day outcomes experienced by households and businesses:

- the power goes off too often and there is very little information about when it will come back on
- my electronics do not work properly
- it is a real hassle trying to get the distributor to provide the information needed to determine the cost of connecting power to this residential subdivision
- we can’t get the information or cooperation we need from our local network to establish and run our community energy project or to support multiple DER investments in a local area.

Currently, it is next to impossible for a consumer to know whether the IMs are working as intended, particularly given the Commission has not recently completed detailed analysis of outcomes (ie, efficiency performance of distributors) and the associated effectiveness of the incentives meant to be created by the IMs.

We consider the Commission needs to clearly explain how it expects each element of the IMs to practically impact the outcomes experienced by households and businesses using distribution services, how confident it is that those outcomes will be achieved, and what evidence it has for that confidence.

This accessible ‘explainer’ of the IMs would describe what specific outcomes the various mechanisms are intended to achieve. For example, what practical outcomes is an IRIS input methodology meant to achieve? How does it stop my power going off so often? How does it change how much I pay? How does it impact whether I can charge my EV at certain times or connect my solar power to the network?

Concluding thoughts

We caution against too strong a preference for incremental change to provide regulatory certainty and predictability in a changing environment. Stability in a time of transition is most likely to result in inertia and therefore less efficient investment, because investors are not provided the flexibility to manage the increased risks which come with change.

The value lost from investing too soon is the cost of bringing forward investment. The value lost from investing too late is the cost of unnecessary (traditional) investments made in the meantime, less innovation, diminished consumer amenity because they cannot use the network as they'd prefer, slower uptake of DER and electric vehicles, reduced reliability and resilience and slower emissions reduction.

Yours sincerely,

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Cortexo (https://www.cortexo.com/) is a grid-edge software platform that enables a greater uptake of distributed energy resources on electricity networks

Our Energy (https://www.ourenergy.co.nz/) is an innovative energy technology company with a proprietary online platform that matches real-time data from those producing their own electricity with others in their communities