

# Open letter on priorities for energy networks and airports

Summary of submissions received on letter published 29 April 2021



# Overview

These slides cover:

- A recap of what we said in our open letter
- An overview of submitters
- The key themes from submissions

Care has been taken to ensure submitters views are accurately represented, although as this is a summary it will not necessarily convey the full detail of submitters' views. All submissions, as well as a copy of the open letter, are available on our website [here](#).



# Recap of Open letter

The purpose of the open letter was to seek views on emerging issues for electricity networks, gas networks and airports and how these issues should be considered and prioritised in the planning of the:

- Gas DPP reset (must be completed May 2022);
- IM review (must be completed December 2023); and
- Targeted ID review (no statutory deadline).

The letter highlighted the implications for the energy sector of the Climate Change Commission's draft advice outlining a decarbonisation pathway with increased electrification, declining natural gas use, and a potential future role for biogas and hydrogen. The letter noted that airports, whose primary challenge at present is COVID-19 travel impacts, will also be affected by longer-term decarbonisation initiatives.

The letter sought views on any perceived barriers in, or potential improvements to, the IMs and / or the use of our powers under Part 4 to facilitate achieving the following outcomes:

- supporting the transition to a low carbon economy in a way that does not compromise access and reliability;
- encouraging innovative approaches to delivering least-cost energy services;
- providing a level of regulatory certainty conducive to efficient investment; and
- recognising wider regulatory systems and competitive energy markets, and the role of our regulation within them.



# Overview of submitters

Electricity	34 submissions
Alpine Energy	Regulated supplier
Aurora	Regulated supplier
Electra	Regulated supplier
Orion	Regulated supplier
PowerCo	Regulated supplier
Transpower	Regulated supplier
Unison Networks	Regulated supplier
Vector	Regulated supplier
Waitaki Power Trust	Regulated supplier
Wellington Electricity	Regulated supplier
Electricity Networks Association (ENA)	Industry body
Energy Trusts of New Zealand (ETNZ)	Industry body
Electricity Retailers Association of NZ (ERANZ)	Industry body
Independent Electricity Generators Association (IEGA)	Industry body
NZ Green Building Council	Industry body
Amazon Web Services (AWS)	Industry participant
Flick Energy	Industry participant
Mercury	Industry participant
Electric Kiwi and Haast	Industry participant
Trustpower Limited	Industry participant
Southland Power Trust	Industry participant
Cortexo	Industry participant
SolarZero	Industry participant
Fonterra	Consumer representative
Major Electricity Users Group (MEUG)	Consumer representative
The Sustainable Energy Forum Inc	Consumer representative
Molly Melhuish	Consumer representative
Utilities Disputes	Consumer representative
Motor Trade Association	Industry body
Pat Duignan	Independent
Geoff Betram	Independent
Innovation and Participatory Advisory Group (IPAG)	Govt/policy
Energy Efficiency and Conservation Authority (EECA)	Govt/policy
The New Zealand Initiative	Govt/policy

Gas	8 submissions
First Gas	Regulated supplier
- (PowerCo)	Regulated supplier
- (Vector)	Regulated supplier
GasNet	Regulated supplier
Greymouth Gas	Industry participant
Hiringa Energy Ltd	Industry participant
Major Gas Users Group (MGUG)	Consumer representative
- (Fonterra)	Consumer representative
Airports	6 submissions
Wellington Airport	Regulated supplier
NZ Airports Association	Regulated supplier
Airlines for Australia & New Zealand (A4ANZ)	Consumer representative
Air New Zealand	Consumer representative
Board of Airline Representatives NZ (BARNZ)	Consumer representative
Qantas	Consumer representative
Water	1 submission
Wellington Water	Govt/policy



# Key themes from submissions

## EDBs – general comments

- Meeting the decarbonisation challenge will require significant investment in the right place at the right time (*All EDBs*). WE\* estimate 80% increase in demand by 2050 which equates to \$1b in investment.
- The current framework does not support what's required to meet this challenge (*ENA, Alpine, Orion, Powerco, Aurora, Electra, Wellington Electricity*). ENA do acknowledge that core elements of the regime remain sound (tax, asset valuation, cost allocation).
- Changes to the objectives of Part 4 regime should be considered to align with decarbonisation goals and enable better outcomes within the Part 4 regime (*Vector, Orion, Transpower, Powerco*).\*
- Want dialogue on IM review changes now - bilateral and stakeholder workshops are required. Traditional submission process will not achieve the right solutions and dialogue (*Vector, Aurora, Wellington Electricity, ENA, Unison*).
- Part 4 work programme plan should be shared to help scheduling refinements and help stakeholders plan for engagement (*Vector*).

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\*We note that s 5ZN of the Climate Change Response Act 2002 says that we may "in exercising or performing a public function, power, or duty conferred on [us] by law"... "take into account – the 2050 target; or an emissions budget; or an emissions reduction plan".

# Key themes from submissions

## EDBs – key issues

- Certainty - to mitigate risk of disruption and higher costs, investment will need to occur ahead of demand. The regime needs to recognise this will be done in the context of uncertainty as the risk of under-investment outweighs the risk of over-investment. (*All EDBs*)
  - Innovation - more funding should be provided for innovation to ensure the right solutions are arrived at. Overseas regulators (AER, Ofgem) are good examples of how this can be achieved. Vector cites data and digitalisation as a key focus in innovation. (*Vector, Powerco, Aurora, WE\*, Electra, Unison*). Incentives should be neutral across EDBs options including opex-based solutions, and a totex approach could be considered in the longer term to achieve this. (*Vector, Powerco, Flick*)
  - Scale - given the size of the investment uplift required the current DPP historical basis for forecasting expenditure is not appropriate for setting future revenues. (*ENA, Alpine, Vector, Powerco*)
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# Key themes from submissions

## EDBs – key issues

- Flexibility - won't forecast everything perfectly in setting PQ paths so flexibility is needed for in-period adjustments. CPPs are too cumbersome and existing reopeners not flexible enough. New mechanisms and approaches may be needed (eg, streamlined CPP, IPP, new DPP reopeners). (*WE\**, *Powerco*, *Aurora*, *Unison*)
  - Investment - real returns not consistent with WACC (debt compensation, inflation issues) which may mean investment needs are unmet by investors. (*Vector*, *Powerco*, *ENA*, *Orion*, *Aurora*, *Unison*)
  - Data – access to meter data to manage the LV network effectively is required. Consider Commission's regulatory toolkit could facilitate this. (*Vector*, *Powerco*, *Orion*, *Electra*)
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# Key themes from submissions

## Transpower – general comments

- Agrees with outcomes and key issues stated in the Open letter. Generally, the Part 4 regime is fit for purpose and has delivered consumers a reliable, safe, and efficient grid.
  - However, consider decarbonising the economy requires a regulatory regime that specifically reflects this objective. Cites UK and Australia as examples.
  - A key focus for Transpower is improving how they enable new connections for grid scale renewable generation and meet growing demand associated with transport and industry electrification.
  - Wants Capex IM review brought forward from 2025 to support RCP4, otherwise wait will be until 2030.
  - Supports targeted ID review noting its ID determination has not been reviewed since it was first set and has minor errors in it.
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# Key themes from submissions

## Transpower – key issues

- Scope of investment test - greater certainty required of how Commission will consider the benefits of decarbonisation.
    - Demand scenarios likely to differ significantly from EDGs. Carbon emissions considered on supply side but not demands side. Discount rate no longer aligned with current financing costs.
  - Timely regulatory approvals - regulatory approval processes must be proportionate and timely to meet pace required.
    - May need to commit to investments earlier and with less certain information. Current \$20m threshold for MCPs may not be appropriate. Staging approach needs to be clarified.
  - Resilience – funding needs to reflect the impacts of climate change and increased electrification.
    - Clarity required on how we will respond to expenditure proposals, and provide incentives, that would enhance network resilience, including to climate change, in a future where a greater proportion of energy is supplied via the grid.
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# Key themes from submissions

## Transpower – key issues

- Sustainability - further incentives required to encourage innovative solutions for environmental sustainability.
    - Large risk exposure with SF6 emissions in the fleet. Innovative solutions will be required and the IMs could provide greater clarity on how expenditure proposals for sustainability (opex and/or capex) will be assessed.
  - Innovation - further incentives required to encourage innovative services and approaches to foster the energy transition.
    - Efficiency is strongly incentivised, albeit IRIS could be improved. Innovation is not sufficiently funded however. UK and Australia are good examples of how innovation can be incentivised.
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# Key themes from submissions

## Other electricity stakeholders – general issues

These submissions generally discussed issues, not specific parts of our regulation

- Agreement that there are lots of changes, challenges, and opportunities coming up due to electrification and technology change, so now is a crucial time to prepare (*All*)
  - Enabling use and integration of demand response, energy efficiency, and distributed energy resources will unlock a lot of value for consumers and Commission should support it happening (*All*)
  - Need to consider the whole electricity sector together (incl wholesale market) to get best outcome for consumers (*Flick, Cortexo / Ourpower*)
  - Potential role for a distribution system operator to make better use of distributed energy resources and alternative solutions, but lack of clarity as to how this would fit within Part 4 regulation (*solarzero, MEUG, Trustpower, Sustainable Energy Forum*)
  - John Hancock offered a presentation on the past findings and current work of the Innovation and Participation Advisory Group (IPAG) to the Commissioners and Commission staff which took place on 2 July 2021.
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# Key themes from submissions

## Other electricity stakeholders – general issues

- More support for innovation and change is required, with some submissions referencing the relative success of Ofgem / UK eg, UK Open Networks Project (*Flick, Trustpower, ERANZ, IEGA, AWS*). AWS submitted advocating for incentives to encourage digital innovation and pointed to Ofgem's totex model as an approach to emulate.
- Some like ERANZ mentioned the issue of EDB provision of contestable services, but it didn't really come across as a large issue from many of the submissions compared to the past (*Flick, Trustpower, Cortexo / Ourpower, ERANZ*)
- General keenness and openness to engage, and open to meeting with us to discuss further (*All*)
- Transmission and distribution pricing is important, so the Commission should support the Electricity Authority's work on pricing (*Flick, Trustpower, MEUG, Electric Kiwi / Hasst, ERANZ*)
- More work on efficiency and benchmarking would be valuable (*ERANZ, Trustpower*)
- Add incentives for broader range of performance like safety and energy losses (*ETNZ*). ETNZ pointed to s 54Q\* as a statutory basis for more pointed regulatory incentives.

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\* "The Commission must promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand side management, and to reduce energy losses, when applying this Part in relation to electricity lines services."

# Key themes from submissions

## Gas – general comments

- Uncertainty will require Commission to confirm its commitment to FCM, and support for investigation of low carbon alternatives for GPBs to be viable (*GasNet, Vector, Powerco, First Gas*).
  - The most recent information must be used to set the Gas DPP. Currently finalising an AMP is difficult and it will need to be updated once policy settings are confirmed (*Vector*).
  - Existing Gas DPP prices could be rolled forward into the next period as assessing current and project profitability is not possible with current uncertainty and a full DPP reset may be more appropriate after the IM review. But there's a risk that uncertainty will be ongoing so waiting may not help and other preferred solutions in submissions go against rolling prices (*First Gas, Vector*).
  - Asset stranding is a significant issue, preceded by high prices for few consumers. Potential ways to front-load revenue: Shortened asset lives, accelerated depreciation, remove RAB indexation, or other revenue uplift. References to our approach for Chorus (*GasNet, Vector, Powerco, First Gas*).
  - Significant expenditure is required just to maintain the assets in the near-term, leading to a suggestion that we relax quality standards (*First Gas*).
  - Specific funding should be provided for investigation of low carbon gases (*GasNet, Vector, Powerco, First Gas, Hiringa*).
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# Key themes from submissions

## Gas – key issues

- Most submitters expressed the view that gas IMs should be reviewed as part of the gas reset and that leaving these to the IM review would be too late (*Fonterra, Greymouth Gas, First Gas, MGUG*)
  - GPBs are concerned about asset stranding and believe more incentives are needed to support a transition to low carbon gasses including:
    - Revenue uplift / increase of the WACC (*GasNet, Vector, Powerco, First Gas*)
    - Shorter asset lives and accelerated depreciation (*Gasnet, Powerco, Vector, First Gas*)
    - Removing inflation indexing from the RAB (*GasNet, Vector, Powerco, First Gas*)
  - Several submitters raised the issue of who pays for asset stranding risk and whether remaining gas consumers will be left with high prices as volumes decline (*Fonterra, MGUG, MEUG, Greymouth Gas, Geoff Bertram*). Concern was also expressed that consumers may end up subsidising new gas technologies or face quality issues, because of regulated infrastructure being used for developing technologies.
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# Key themes from submissions

## Airports – general comments

- All note the challenges of COVID 19 for the aviation industry and the efforts already made by industry to prepare for decarbonisation. Several submitters noted the impact of ongoing uncertainty regarding passenger numbers on airport investment.
  - Airports mentioned their interest in the capacity of electricity networks to support increased demand they expect to see from airlines.
  - Submitters signalled their understanding that the energy sector is the key focus for now and none raised issues with the IM timetable, noting Auckland and Christchurch Airports will likely reset prices prior to the conclusion of the IM review. Airlines requested consultation meetings when the review has begun.
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# Key themes from submissions

## Airports – key issues

- Airlines are of the view that the current regulatory settings are not fit for purpose and view ID regulation as being ineffective as no public comment or analysis is made on Airport ID.
  - Airlines raised issues with airports' ancillary income (retail, car parking etc.) not being covered by the IMs. Airlines also noted instances of airports not progressing capital plans.
  - Airlines called for the introduction of a negotiate / arbitrate model.
  - Qantas also proposed increased ID with a focus on capex and opex being assessed for efficiency, and called for this to be applied to 'second-tier' airports (e.g. Queenstown, Dunedin) as well.
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# Key themes from submissions

## Airports – key issues

- Airports queried whether airports are subject to additional unexpected risks (ie, as experienced through COVID-19) which are not compensated for by the WACC IM, and request consideration of the risk profile in the IM review. Air New Zealand anticipated this and reiterated their view that ancillary income should be factored in.
  - Airports noted the low interest rate environment poses issues for CPI forecasting.
  - Airports requested any changes to ID account for incoming mandatory climate-related disclosures and avoid duplication.
  - Wellington Airport requested the Tax Adjusted Market Risk Premium (TAMRP) is reviewed in the IMs on the basis of the higher TAMRP in the fibre IM draft decision.
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# Key themes from submissions

## Other – misc.

- Pat Duignan views that the Commission needs to assess, before commencing the IM review, compatibility between the current regulatory framework and the Climate Change Response Act 2019 and should commence in depth consultation on this immediately.
  - Utilities Disputes offered access to complaints data for distributors.
  - Wellington Water requested clarity on how wider changes to government policy are reflected in Part 4 regulation. Specifically, WW asked how the Commission would apply changes to government policy statements related to water but not economic regulation (eg, environmental policies) ahead of a Part 4 inquiry or IMs for water.
  - The NZ Initiative argued the Commission should focus on regulatory incentives which reduce emissions overall, in line with the Emissions Trading Scheme, and not consider Part 4 companies in isolation.
  - Geoff Bertram submitted that the original asset valuations were too high, locking in monopoly profits, and suggests this is an example of regulatory capture.
  - The NZ Green Building Council proposed introducing a scheme akin to the UK Energy Company Obligation (overseen by Ofgem) which places obligations on large energy suppliers to deliver energy efficiency measures to residential consumers.
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