

Robert Bernau
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Commerce Commission
Via email: regulation.branch@comcom.govt.nz

30 January 2018

Dear Robert,

Open Letter – Priorities for the Electricity Distribution Sector for 2017/18 and Beyond

Thank you for the opportunity to comment on the Commerce Commission's open letter of 9 November 2017 "Our priorities for the electricity distribution sector for 2017/18 and beyond".

We welcome and support the Commission's focus on current distributor asset management practices and for seeking open-ended industry feedback. A properly maintained and resilient network delivered via appropriate and transparent investment decisions is fundamental to ensuring a high performing electricity distribution sector and for delivering long term benefits to consumers.

Retailers face similar challenges to the Commission in that we do not have technical expertise regarding distribution network infrastructure to enable us to provide detailed feedback on Asset Management Plans (AMPs) or assess whether investment decisions appear reasonable. However, we do understand the needs of our customers who primarily value a reliable service above all else. While many networks are well maintained, public reporting on the potentially poor condition of traditional assets in some networks and decisions around their maintenance or replacement is of concern to Mercury and its customers. We therefore support the Commission's focus in this area.

Mercury supports the submission from Electricity Retailers Association of New Zealand (ERANZ) and provides the following additional comments for the Commission's consideration.

Disclosure and performance

We consider disclosure relating to network investments can be significantly improved. The documents currently disclosed lack transparency and are not sufficiently detailed to allow market participants and consumers to make informed assessment of whether EDBs have made efficient procurement choices that promote the long-term interests of consumers.

We do think some of the current technical expertise challenges are being driven to some extent by the way AMPs are presented and the lack of transparency around how investments, particularly in new technologies, are being treated. We support the Commission's focus in this area and consider there could be some valuable improvements made to improve input from non-technical stakeholders.



We would support the AMPs clearly detailing which investments in new technologies have been included and provide information as to why they should form part of the regulated business (consistent with the Commission's recent decisions on related party transaction). Further, the asset registers and explanatory notes contained in the Electricity Financial and Network Information should enable industry participants to clearly see a breakdown of the traditional infrastructure expenditure and investments in emerging technologies (for example detailing at an aggregate level the installed capacity of any solar and batteries being used to provide the network service).

In terms of the content of the disclosure documentation, we support information being presented for a wider audience (including retailers, consumers, and other interested stakeholders) who may not necessarily have technical expertise in the area. We agree with ERANZ that content of AMPs could be modified and simplified, and the relevance of the existing detail should be re-visited through the lens of what is actually useful to stakeholders to understand the performance of EDBs.

Compliance monitoring and enforcement

The regulatory compliance monitoring and enforcement regime would also benefit from being reviewed. Stakeholders and consumers need to have confidence that non-compliance will be appropriately addressed by the Commission. We would like to see the Commission having a more proactive role.

There appears to be a middle-ground missing from the Commission's current practices to deter and address non-compliance. We agree with ERANZ that warning letters, at one end of the spectrum, are relatively passive and out-of-court settlements are perhaps too far at the other end to be appropriate in all cases of non-compliance. We would support the range of enforcement tools being expanded.

In addition, random audits would be a useful compliance monitoring mechanism ensuring greater scrutiny of network performance. This would provide better incentives to ensure assets are maintained in accordance with best practice.

Finally, we agree with ERANZ that effective accountability for EDBs can fall through the gap with two regulators – the Commission's SAIDI and SAIFI terms and UoSAs regulated by the Electricity Authority, which are granular and are contractual. What is missing are some middle ground core standards for EDBs and accountability to the Commission for compliance.

Consumer engagement

There would be benefit in retailers being involved in engagement with consumers to ensure quality service levels reflect their preferences. Retailers may have useful data about outages and other customer network complaints for instance. Retailers are often the first point of call for a customer as they given our direct relationship. We would support the Commission involving retailers in these discussions.

Outage communications and Quality standards

Consumers more often than not will contact their retailer directly during periods of supply outage and where outages are planned (and even when unplanned) there are communications that have to be managed between Mercury, the distributor and consumers. Mercury maintains a dedicated team to manage these communications so the timeliness and quality of communications with retailers, particularly around planned outages, is important and could be an area the Commission could consider reviewing.



While consumers primarily value supply reliability, the quality of the electricity supply is also an area of relevance to consumers and will increasingly become more important with increases in distributed generation and storage. Not maintaining voltage within safe ranges can have serious implications for the operation of electrical equipment by reducing its performance or potentially even causing failure. This is of particular concern for vulnerable consumers such as those who are medically dependent. We support ERANZ position that the Commission should consider setting quality standards in relation to voltage stability under its statutory power under section 53M(3) of the Commerce Act. The overall customer experience could be improved by EDBs monitoring and reporting on voltage quality.

DPP/ CPP

The Commission should increase the effectiveness of the process for assessing price-quality path proposals. Given the majority of EDBs are on DPP, the Commission should focus on this area and determine whether DPPs are in fact fit for purpose (given more EDBs are looking to go on a CPP arrangement). There can also be improvements to the CPP process, for example, by having a standardised cost/benefit analysis so stakeholders can better understand proposals for increased infrastructure expenditure.

Yours sincerely



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Regulatory Advisor

