

Harbour Asset Management – Written submission on the IM Review 2023 Draft Decisions provided via email – 19 July 2023

From: Simon Pannett [REDACTED]
Sent: Tuesday, July 18, 2023 3:36 PM
To: IM Review <IM.Review@comcom.govt.nz>
Subject: RE: Comcom - Harbour Asset Management - received Feedback on draft IM methodology [CCNZ-IMANAGE.FID363491]

Thanks Charlotte. Here is our feedback:

Harbour Asset Management is a New Zealand owned fund manager responsible for \$7.7bn in funds under management on behalf of a range of charitable trusts, KiwiSaver investors, iwi, financial advisers and retail investors. Increasingly our investor base expresses a desire to deploy capital that infers societal benefits beyond deriving an economic return. For this reason, we would like to provide comments on the draft decisions of your input methodologies review with regard to enabling electrification.

The transition to greater electrification creates uncertainty. Electricity distributions businesses may have to make changes to their operating models. It is possible to make an argument this should result in a higher beta. Some already made an argument to remove indexation of the regulated asset base to assist financing growing capex needs. We sympathise with, and are of course financially aligned with, these arguments, but to keep our submission simple, we focus on our view that above all we believe electricity distribution businesses should be incentivised to find the best solution for the environment, their customers and shareholders, not to narrowly invest in the most capacity the Commission will permit. We hope our submission sheds light on an investor's perception of the sector.

First, we would like to comment on the complexity of the regulation and its presentation. Regulation is a public good benefiting society. We observe that the 14 June publications are inaccessible to large tracts of society. They span over a thousand pages and are difficult to navigate, frequently referencing other sections. A summary is provided, however this document is written for an audience with significant assumed knowledge of the industry and review background. We think there would be benefit if a summary was more accessible to a wider slice of society, including the media. We point to the RBNZ as another government agency that does an excellent job of providing accessible summaries of their technical output, acknowledging that the RBNZ's job is easier, summarising the output of its decisions rather than the regulation of an entire industry.

Complexity can provide a challenge beyond presentation. The Commission notes that in response to uncertainty EDBs could pursue a 'reopener' or a customised price path should changing technological requirements necessitate an unanticipated response during a pricing period. In appraising the responsiveness of the regulatory regime to the challenges electrification, we have spoken with EDBs to judge whether these paths are too complex and as such create a dead-weight loss. We have received a mixed response with some EDBs indicating that the time to complete an application likely means they are locked into a path, whereas others noted it would be only marginally more complex than a business case put to their Board anyway. Our feedback is to encourage simplicity as much as feasible.

In appraising the regime, we sought to understand whether the IRIS framework is as practically useful as the totex framework proposed by some. We were particularly interested to ensure the

most efficient solution to changing technology is incentivised, be that investing in higher-capacity plumbing or higher ongoing spending on operating systems. Feedback was that IRIS is less complex and therefore we agree with the Commission's suggestion to retain this mechanism. It appears to incentivise EDBs while fairly sharing any efficiency gains.

Capital may be key to the solution if the industry faces a step change in required investment as predicted in both Transpower's and BCG's recent reports. Investors such as Harbour Asset Management have an appetite to supply capital that enables decarbonisation. The ownership structure of many of the EDBs, particularly the smaller EDBs, severely limits their access to capital; some barely have the ability to alter pay-out ratios let alone attract fresh equity capital. Access to debt capital is limited without the access to equity. Consolidation by those with stronger access to funding may provide a solution. We understand it is neither the Commission's role to dissuade or incentivise consolidation. Instead, we ask that, as with implementing reopeners or a CPP, the Commission realises that the less friction it can cause when appraising merger proposals, the more easily the capital necessary for decarbonisation can flow to constrained entities.

More broadly, we recognise the Commerce Commission acts in consumer's best interests. We believe there should also be recognition in allowable returns for investment that improves environmental outcomes which is part of the regulated asset base but can't be charged for; such allowance would capture positive externalities beyond the narrow price/quality interests of consumers.

Regards,

From: IM Review <IM.Review@comcom.govt.nz>

Sent: Wednesday, July 12, 2023 2:21 PM

To: Simon Pannett [REDACTED]

Subject: Re: Comcom - Harbour Asset Management - received Feedback on draft IM methodology [CCNZ-IMANAGE.FID363491]

Kia ora Simon,

Thanks for your email and interest in providing feedback on our IM Review draft decisions, which we welcome.

While we appreciate your offer to give us a call to discuss this feedback, our preference would be that you submit your feedback as a written submission, in line with the process and timeframe set out in our draft decision package (eg, Chapter 6 of the [Summary and context paper](#)). This is because we want all interested parties to have a fair opportunity to cross-submit on feedback provided to us in the consultation period, and that is harder to do in respect of oral feedback provided to us. It is also important to us that parties have the same opportunity to submit and cross-submit in the process, and that can be undermined if we allow one interested party the opportunity to meet with us for that purpose, but not others.

We hope this is helpful and look forward to receiving your submission.

Ngā mihi nui,

Charlotte Reed



Charlotte Reed

**Input Methodologies Manager,
Input Methodologies Review 2023**

Commerce Commission | *Te Komihana Tauhokohoko*

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[2023 Input Methodologies Review web page](#)

www.comcom.govt.nz

From: Simon Pannett [REDACTED]
Sent: Wednesday, 12 July 2023 8:10 am
To: IM Review <IM.Review@comcom.govt.nz>
Subject: RE: Comcom - Harbour Asset Management - received Feedback on draft IM methodology [CCNZ-IMANAGE.FID363491]

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Thanks Rachel

From: IM Review <IM.Review@comcom.govt.nz>
Sent: Tuesday, July 11, 2023 5:27 PM
To: Simon Pannett [REDACTED]
Subject: Comcom - Harbour Asset Management - received Feedback on draft IM methodology [CCNZ-IMANAGE.FID363491]

Tēnā koe Simon,

Thanks for your email. It has been forwarded on to our team for response.

Nakū, nā,



Rachel Meads ([she/ her](#))

Acting Project Manager, IM Review 2023

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From: Simon Pannett [REDACTED]
Sent: Tuesday, July 11, 2023 5:17 PM
To: IM Review <IM.Review@comcom.govt.nz>
Subject: Feedback on draft IM methodology

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Hi there,

Harbour Asset Management is a New Zealand owned fund manager responsible for \$7.6bn in funds under management on behalf of a range of charitable trusts, KiwiSaver investors, iwi, financial

advisers and retail investors. We have provided both equity and debt to several of the impacted sectors.

Increasingly our investor base expresses a desire to deploy capital that infers societal benefits beyond deriving an economic return. For this reason (as opposed to arguing economic assumptions), we would be interested in providing some feedback on the draft decisions of your input methodologies review with regard to enabling electrification.

We are happy to provide a formal, discoverable submission if that is the avenue you prefer, but if you are open, we would like to simply have a quick call to share our thoughts based on speaking with a couple of the EDBs. We think this feedback may be more useful because it is high-level rather than overly technical (and would be happy to make a formal submission subsequently).

If you are open to this, are you able to please suggest a couple of times for a half hour call next week?

Regards,
Simon

Simon Pannett
Senior Credit Analyst

w. www.harbourasset.co.nz



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