

29 April 2021

Dear stakeholder

Open letter—ensuring our energy and airports regulation is fit for purpose

Purpose of this letter

The purpose of this open letter is to seek your views on the emerging issues for electricity networks, gas networks and airports as they relate to our responsibilities under Part 4 of the Commerce Act 1986 (**Part 4**) and how we should prioritise these issues when planning our work programme in the near term. We are particularly interested in emerging issues that relate to New Zealand’s decarbonisation and use of new energy sector technologies and business models (the “energy transition”) and the impacts of COVID-19.

Currently, our main prioritised processes for meeting our responsibilities under Part 4 for the near future are planned to be:

- upcoming reset of price-quality paths for gas pipeline businesses, which we are required to determine by the end of May 2022 (**gas reset**)
- upcoming input methodologies (IMs) review, most of which we are required to complete by December 2023 (**IM review**)
- ongoing summary and analysis of disclosed information, and a planned project of targeted amendments to the information disclosure regime (**targeted ID review**).

The gas reset is the second of our five-yearly processes for resetting the limits on revenue and quality standards for gas pipeline businesses. The rules and processes for the gas reset—along with those for electricity resets and other Part 4 processes we undertake—are set out in the IMs, which we review once every seven years. The IM review will be the second of these seven-year reviews.

We are seeking views now, ahead of any formal consultation on any of these processes, to help inform our planning. There will be further opportunities to have your say on any other relevant issues during each process as and when we move into the formal consultation phase of each process.

Ensuring our regulation under Part 4 remains fit for purpose

A changing environment

The energy sector is in a period of change and uncertainty, and the pace of change may accelerate. The recent draft advice to the Government from He Pou a Rangi, the Climate Change Commission, outlined a decarbonisation pathway that may mean an increasingly significant role for electricity, a decline in natural gas use, and a potential future role for biogas and hydrogen. The Climate Change Commission’s final advice is due next month with decisions by Government expected by the end of the year. The Commission’s draft advice is clear, however, in signalling significant change for the investment required in the energy sectors.

Where and when investment may be required will depend on a number of policy, consumer demand and market evolutions. At the same time as electricity demand is expected to increase, there are new technologies and alternative solutions for accommodating growth on electricity networks. The expectations of consumers, government and industry on both us and the sectors are also increasing – particularly in the area of consumer engagement and new technology.

Meanwhile, COVID-19 has had a substantial impact on the airports we regulate with a sharp decline in the number of flights. In the longer term, decarbonisation efforts may also impact airports, with fewer flights or changing requirements.

Energy transition

In the context of electrification, the Climate Change Commission’s draft advice contains a number of recommendations aimed at ensuring “a low emissions, reliable and affordable electricity system to support electrifying transport and industry”. For example, these include recommendations to:¹

Assess whether electricity distributors are equipped, resourced and incentivised to innovate and support the adoption on their networks of new technologies, platforms and business models, including the successful integration of EVs [electric vehicles].

[and]

Monitor and review to ensure electricity remains affordable and accessible, and measures are in place to keep system costs down, such as demand response management.

We agree that these are key areas to assess during the energy transition.

¹ Climate Change Commission “2021 Draft Advice for Consultation” (31 January 2021), page 117.

In the context of natural gas use, the Climate Change Commission's draft advice also proposes:¹

Setting a date by when no new natural gas connections are permitted, and where feasible, all new or replacement heating systems installed are electric or bioenergy. This should be no later than 2025 and earlier if possible.

Whether or not this recommendation is adopted by the Government, gas use is likely to come under increasing pressure as decarbonisation efforts progress. At the same time, the Gas Industry Company, at the request of the Minister of Energy and Resources, is currently conducting a study to help ensure that the electricity industry has security of gas supply for electricity generation, and major gas users have sufficient certainty about gas supply for their operations, as New Zealand pursues decarbonisation. Some uncertainty also exists due to the potential future use of gas pipeline assets for alternatives such as biogas and hydrogen blends.

Planning our upcoming regulatory processes

Our regulatory rules can support the increased electrification of the economy, including through incentivising innovation, the adoption of new technologies and demand response management, and allowing for the successful integration of electric vehicles.

Getting views and input now on how industry stakeholders see the challenges and opportunities will help inform our planning, which will also be informed by the significant work that has been undertaken on these topics already. Past work includes that by the Innovation and Participation Advisory Group and the Ministry of Business, Innovation and Employment as well as feedback that we received from stakeholders through the funding review.² We will also continue to work in close cooperation with other relevant agencies like the Electricity Authority the Energy Efficiency and Conservation Authority, and the Ministry of Business, Innovation, and Employment in these areas.

Both the gas reset and IM review present opportunities to review and adjust our regulations to ensure they remain fit for purpose in the changing context faced by the energy (and airport) sectors. This may involve considering whether our regulation under Part 4 achieves the following:

- supports the transition to a low carbon economy, but in a way that does not compromise consumers receiving the energy services they demand, across reliable and resilient networks
- encourages innovative approaches to delivering least-cost energy services
- continues to provide a level of regulatory certainty and predictability conducive to efficient investment
- recognises wider regulatory systems and competitive energy markets, and the role of our regulation within them.

² Information on the funding review process and feedback received is published on [our website](#).

We welcome your views on whether there are currently any significant barriers in either Part 4 itself or the IMs to achieving these outcomes and how we could better support these outcomes through improvements to our incentive-based regulation or other uses of our powers under Part 4. We are also interested in feedback on key themes or issues that the IM review should consider outside of the energy transition and the COVID-19 impact.

Summary and analysis are an important input into our understanding of how regulated businesses are performing under the current regulatory settings, using information disclosed in accordance with the information disclosure requirements we set across electricity, gas and airport sectors. We have an increasing programme of analysis, which can include indicators of the comparative efficiency of firms in the sector.

As part of our planning and prioritisation work, we will be considering whether there are other areas where improved information disclosure requirements could play a stronger role in shining a light on the performance of electricity or gas networks and informing price-quality regulation within the changing environment. This could be through a combination of removing, adding and changing aspects of the existing information disclosure requirements.

Unlike the IM review and the gas reset, there is no statutory requirement or deadline for information disclosure amendments. However, we have previously indicated our plans to review aspects of our information disclosure requirements and consider that this is work that should be prioritised.³ We recognise that some information disclosure changes may be time sensitive to the extent that the information they would yield, such as reliability data with improved consistency, would usefully inform the next price-quality path resets for electricity lines businesses or other work.

Our indicative timeframes that we are currently working towards for the gas reset and IM review are outlined in Attachment A. We have not yet planned indicative dates for our targeted review of information disclosure requirements but welcome views on timing for the targeted ID review and topics that could help inform the energy transition.

Providing your feedback

We welcome all feedback on this letter by 5pm, 28 May 2021. You can also contact us in this time if you think that you will be receiving or developing information after this date that would be useful for us to consider. Responses should be addressed to:

Andy Burgess, Head of Energy, Airports, and Dairy Regulation;

c/o regulation.branch@comcom.govt.nz;

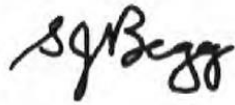
'Feedback on fit for purpose regulation' in the subject line of your email.

³ In our decision paper for our last reset of electricity distributor price-quality paths, we indicated our plans to consider information disclosure amendments, which we explained could include more disaggregated reliability data, power quality measures, or more information relating to the low voltage networks. Our decision paper is available on our [website](#).

While this letter primarily relates to our regulation of energy networks under Part 4, to the extent it relates to the IM review, this letter may also be of interest to stakeholders in the airports sector. If your feedback relates to a specific piece of regulation or upcoming process that we carry out, please state this clearly.

We intend to publish feedback we receive unless there is a clear and explicit request to not publish it due to confidentiality or commercial sensitivity. We will consider any such requests on their merits.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sue Begg', is centered below the text 'Yours sincerely'.

Sue Begg
Deputy Chair
Commerce Commission

Attachment A: Indicative timetables for upcoming regulatory processes

The tables below indicate our current planned key steps and timeline for the gas reset and IM review.

Indicative timetable for gas reset

Indicative dates	Key process steps
July 2021	Process and issues paper
Q4 2021	Draft decision on the gas reset is released for comment
Q1 2022	Submission period
Q2 2022	Technical consultation
May 2022	Final decision on the gas reset released
Oct 2022	Gas reset is in effect

Indicative timetable for IM review

Indicative dates	Key process steps
Q1 2022	Notice of Intention
Q3 2022	Discussion / Issues paper released for comment
Q2 2023	Draft decision(s) on the IM review released for comment
Q2 2023	Submission period
Q3 2023	Technical consultation
December 2023	Final decision(s) on the IM review released