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Keston Ruxton
Manager, Market Assessment and Dairy Regulation Branch
Commerce Commission
By email: regulation.branch@comcom.govt.nz

Dear Keston Ruxton

Input Methodologies review – Emerging technologies

1. Introduction

Wellington Electricity Lines Limited (**WELL**) welcomes the opportunity to respond to the Commerce Commission's (**Commission)** *'Input methodologies review – Emerging technology pre-workshop paper'* published 30 November 2015.

The emergence of technologies, such as solar PV and battery storage, are providing new avenues for consumers, retailers, networks and third parties to interact in the energy market. In relation to distribution networks, emerging technologies have the potential to reduce or defer the need for network augmentation by enabling peak energy demands to be met and managed through alternative means. This offers the potential to reduce networks costs over the long term. At the same time however, emerging technologies also have the potential to increase network costs if injection into the network is not managed appropriately or occurs at times which do not contribute to peak demand reduction.

2. Role of input methodologies

The key question for the Input Methodologies (**IM**) review is whether emerging technologies impact on the regulation of electricity lines services under Part 4 of the Commerce Act, and specifically on the IMs determined under section 52. To this end, WELL agrees with the Commission's preliminary view that the existing IMs are appropriate for dealing with Electricity Distribution Businesses' (**EDB**) participation in the market for emerging technologies.

As discussed in the pre-workshop paper, the cost allocation IMs clearly specify the rules for allocating capital and operating costs between electricity lines services and unregulated services, including the process for allocating costs attributable to both electricity lines services and unregulated services. EDBs' compliance with the cost allocation IMs is subject to rigorous audit requirements and Board certification. EDBs do not have discretion in determining whether a cost is partly or fully attributable to electricity lines services as it must demonstrate to auditors that its allocation is appropriate. Importantly, the penalty for contravening the information disclosure requirements is up to $5 million and therefore ensuring compliance is paramount.

Regulation should remain principles based and technology neutral. We are not aware of any special circumstances that provide a basis for treating emerging technologies any differently to other inputs into the delivery of electricity distribution services. The market for emerging technologies is competitive with multiple buyers and sellers of services, as are the markets for many other operating and capital inputs. There is also no basis for treating the unregulated supply of emerging technologies differently to other unregulated services that EDBs may supply. The market will determine the most cost effective solution for consumers without the need for further regulatory intervention.

The existing cost allocation IMs strike an appropriate balance between mitigating the potential for cross-subsidisation of regulated and unregulated services and not unduly deterring EDB participation in unregulated activities.

It is important that EDBs are not inefficiently deterred or excluded from participation in unregulated activities, particularly for emerging technologies where there are potential opportunities to cost-effectively defer network investment, however at this stage it is unclear whether emerging technologies will be able to provide long term relief from network constraints.

EDBs have some natural advantages in the market for emerging technologies, including economies of scope and scale and information on localised network constraints. Notably, these are natural advantages which enable efficiencies to be realised for the long term benefit of consumers. These advantages are not borne through market power or anticompetitive behaviours. Consequently, deterring EDB participation in the market, or increasing the costs of EDB participation through restrictive ring-fencing requirements, would result in lost efficiencies and opportunities for customers. Further, other market participants also have natural advantages through economies of scope and scale, direct access to customer meter data and direct customer relationships.

There is no need to change the existing costs allocation IMs, introduce revenue allocation IM's or impose any other form of regulatory deterrence on EDB participation in the market for emerging technologies. The Commission should not change the IMs unless it has substantive evidence that doing so would be in the long term interests of electricity consumers, that is the potential harm from EDB participation would exceed the long term benefit.

3. Closing

WELL appreciates the opportunity to contribute to the IM review. Please do not hesitate to contact Megan Willcox, Regulatory Projects Manager, on MWillcox@welectricity.co.nz if you have any queries.

Yours faithfully

G Skelton

Greg Skelton
CHIEF EXECUTIVE OFFICER