

22 December 2017

Submissions
Commerce Commission
PO Box 2351
Wellington

Via email: powercocpp@comcom.govt.nz

Dear Commission

Re: Cross-submission on Powerco CPP draft decision

1. Thank you for the opportunity to provide a cross-submission on the Commission's Powerco Customised Price Path (CPP) draft decision.
2. The focus of this submission is Powerco's network evolution capex. Our previous submission provided support for elements of Powerco's network evolution capex.
3. We agree with the Commission's draft decision which stated, *"We consider Powerco needs to provide more tangible justification underpinning how consumers are likely to benefit from the specific projects it is proposing to undertake."*
4. We also agree with Powerco's submission on the draft decision which stated, *"We disagree with the decision to reject all project investments included in the network evolution portfolio, rather than review and consider the merits and priority of each individual project on a standalone basis."*
5. To provide the Commission with more detail and justification for the proposed network evolution capex, Powerco has commissioned Allan Miller Consulting (consultant) to assess each of the projects in the network evolution expenditure portfolio.
6. We have read the report prepared by the consultant and make two key observations:
 - 6.1. The report provides a general overview of the potential benefits of each network evolution activity area to the industry as a whole. However, the report demonstrates a limited understanding of which activities are a natural part of the monopoly service, and which activities could be supplied by contestable markets.

Powerco does not yet appear to have determined what its role, as a regulated monopoly service provider, is in relation to each network evolution activity. We remain concerned that Powerco's 'Distributed System Integrator' vision includes a foray into competitive markets, and that elements of any approved network evolution regulated funding will be used to compete with private capital in developing customer energy services.

- 6.2. The report provides little to no detail on actual plans and projects that require network evolution funding. It is difficult to see how the report could provide the Commission with any evidence that Powerco has further developed its network evolution strategy or demonstrated what the benefits would be to consumers of Powerco's regulated lines service, who would be paying for the network evolution funding. We provide further comments on a number of the individual network evolution activities below.
7. There are three areas of Powerco's network evolution funding that we do not support. These include the following:
 - 7.1. **Energy storage:** The consultant's report correctly identifies that activities should concentrate on how to utilise the multiple benefits potentially available from storage. Powerco has not provided any detail on how they would utilise network evolution funding on energy storage, including what Powerco's role would be in a rollout of storage assets that can access multiple value streams.
 - 7.2. **Demand management:** Similar to energy storage, the consultant's report identifies that demand management can provide services to multiple parties, including customers, networks, managing energy prices and ancillary services. Powerco has not provided any detail on their plans for network evolution funding in this space, including what Powerco's role would be in any customer demand management applications.
 - 7.3. **Integrating community energy schemes:** The consultant's report includes applications such as peer-to-peer trading and the use of community level storage. There are privately funded businesses developing these services in New Zealand today. It is unclear how Powerco intends to utilise any network evolution funding allocated to this area.
8. Powerco can access all of the network benefits of energy storage, demand management and peer-to-peer trading by collaborating with third parties, such as Contact, who are developing unregulated businesses which provide customer energy services.

9. Rather than the Commission approving Powerco's proposed network evolution capex for the three activities above, the Commission should consider approving network evolution opex, which can be utilised by Powerco to test and learn how to collaborate with third parties to realise the distribution network benefits that each application can provide Powerco.
10. This approach would be no different to the regulated funding Transpower has in place at the transmission level to test and learn how to utilise third party demand response for the benefit of the network, and for consumers of network services.

We would be happy to discuss or engage further with the Commission if it would be of assistance.

Yours sincerely



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