

21 December 2021

Andy Burgess
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Commerce Commission
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Dear Andy,

Feedback on the impact of decarbonisation on electricity lines services

ENA welcomes the opportunity to provide feedback on the impact of decarbonisation of electricity lines services and put forward our key priorities for reform of the Part 4 regulatory regime.

Electricity Distribution Businesses (EDBs) have a fundamental role in facilitating decarbonisation of the economy. The electricity sector is just at the beginning of this transition phase which will be the largest change in the New Zealand electricity system since its inception.

The ENA represents the 27 electricity EDBs in New Zealand who are providers of local and regional electricity networks. ENA and its members appreciate the proactive approach taken by the Commission to identify future priorities and areas for reform to support decarbonisation.

EDBs will need to invest to enable decarbonisation

The future of the New Zealand electricity sector will look very different from its past. EDBs' past operational and capital expenditures will not be an accurate indicator of prudent and efficient future-focused expenditure. The regulatory regime can therefore no longer be based on backward-looking operating expenditure profiles, and must include an allowance for the cost of adaptation and innovation. ENA recommends that forecasts of expenditure in default price-quality paths focus on future expenditure needs, and the expenditure allowances informed by EDB's asset management plans, or some way of consistently recognising expenditure needs driven by decarbonisation. The existing methods of establishing expenditure "steps" have proved inadequate.

Importantly, the Part 4 regime and its incentive schemes must not punish EDBs for investing to support the transition to a carbon-neutral economy. Inclusion of customer-connection capital expenditure in the Incremental Rolling Incentive Scheme (IRIS) is the most prominent example of how, under the current regime, EDBs are worse off by facilitating growth, the electrification of industry, and progress to a carbon-neutral economy.

To fix this, ENA recommends the Commission exclude customer-connection capital expenditure from the IRIS and introduce either a streamlined re-opener process, or direct pass-through for this expenditure.

Innovation has a significant role in delivering efficient distribution services that enable decarbonisation of the economy. ENA supports the intent of the innovation allowance. However, in its current form, the allowance fails to deliver on its intent. Limited scale and heavy compliance burden has curtailed uptake.

ENA recommends the Commission overhaul the innovation allowance by increasing the size of funding available, reducing the compliance burden, and moving to an ex-ante conditional approval or 'use it or lose it' framework.

The regulatory regime needs to incorporate more flexibility to deal with increased uncertainty

New Zealand's exact path to carbon zero is still unknown. It will only be fully recognisable in the 2025-2030 regulatory period. Therefore, the regulatory regime must be flexible enough to respond to material changes in technology, government policy, legislation, and customer behaviour within regulatory periods.

The existing regime provides for both limited re-openers and resource-intensive customised price-quality path applications. ENA recommends the Commission consider development of contingent allowances, pass-throughs, or other flexibility mechanisms that automatically trigger on the occurrence of specific events. These flexibility mechanisms should allow for collective application. Specifically, the regime must include a pass-through of EDB's carbon abatement costs under the Climate Change Response Act 2002.

Information disclosures need to be brought up to date

The information disclosure (ID) regime covers both exempt and non-exempt EDBs and provides valuable insight into EDB performance in delivering electricity distribution services. Collation, preparation, and audit of IDs by each EDB consumes significant resources.

To ensure that information disclosures deliver useful information in return for these resources, the information contained in IDs must be relevant, up-to-date, and in line with both the broader regulatory regime and the industry's evolution.

ENA has been working with its members to review the IDs for areas of improvement, redundancy, and potential additions. ENA looks forward to sharing the full results of its review with the Commission in early in 2022.

The ENA's review has highlighted three components of IDs that ENA believes should be reformed to ensure the regime is fit for purpose and reflects the influence decarbonisation and electrification has on delivery of electricity distribution services. These areas for reform are:

- alignment with IRIS calculations under DPP3
- capture of data on uptake of distributed energy resources, including solar PV, battery storage systems, and high-capacity electric vehicle chargers
- uncoupling heatmaps from related-party transactions and refocusing them on mapping network congestion as part of a revised schedule 12B.

Closing comment

We appreciate the proactive approach being taken by the Commission, via the open letter and subsequent workshop, in engaging with stakeholders to identify impacts of decarbonisation on the regulatory regime, and the changes necessary to adapt the regime.

Don't hesitate to get in touch if you would like to discuss this letter. Contact me (Keith@electricity.org.nz, 04 555 0074) in the first instance.

Yours sincerely,



Keith Hutchinson
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