Submission to Select Committee on Electricity Industry Amendment Bill

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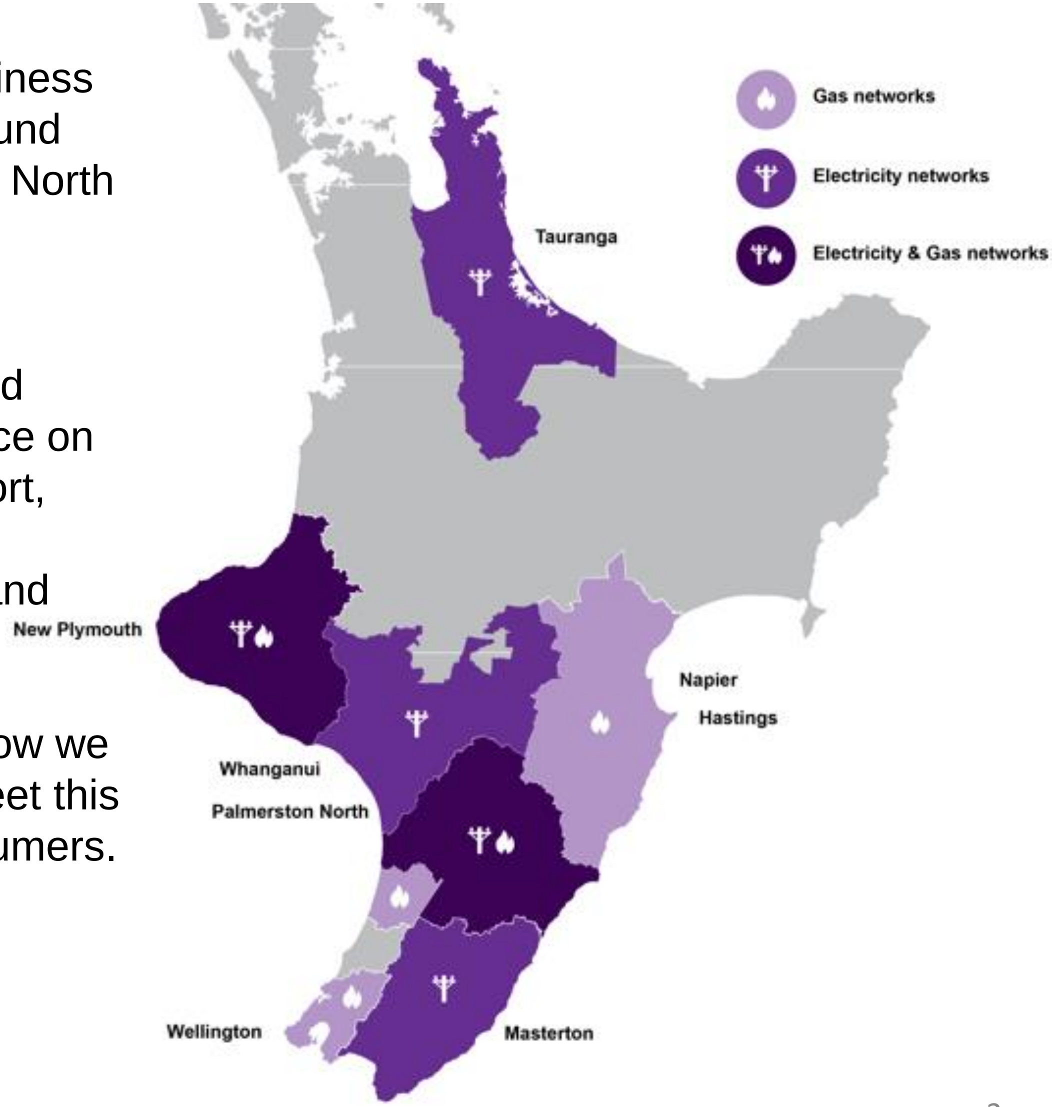
Reliable energy for your world

Powerco is a leading New Zealand electricity and gas infrastructure business providing distribution services to around 1.1 million customers throughout the North Island.

Powerco will play an important role in electrifying the economy. Increased electrification will increase the reliance on electricity in new ways eg for transport, manufacturing, remote working, and decentralised electricity generation and storage.

Powerco is well prepared to adapt how we plan and operate our networks to meet this new need at the lowest cost to consumers.



Recommendations

Powerco was heavily engaged with the Electricity Price Review. We support the proposals relating to customer advocacy and have no substantive comment on the other matters included in the Bill.

Our submission focusses on two topics we think warrant careful consideration by the Committee

[1] Competition in contestable markets	• The Part 3 provisions have always been a matter for primary legislation. They dictate the structure of the industry. • If moving Part 3 provisions to the Code, the legislation should set out the purpose of the power, relevant considerations and limits on the power. **Benefit** Support the Authority's processes to set rules to address risks to competition.
[2] Regulating distribution access terms and conditions	• A more clearly defined problem definition is required to justify duplicating regulatory responsibilities that were intentionally delineated in the 2010 Act • If this change is made, s54V of the Commerce Act should be amended to *require* the Authority to consult with the Commission before setting quality standards (as opposed to only "advise" the Commission after it has made a change). **Benefit** Provide confidence to all stakeholders that any Authority proposal is achievable given the requirements, timeframes and tools available to the Commission that regulate EDBs

[1] Technology is changing our business in a variety of ways

Customer technology

- Emerging generation, storage, trading, and demand management technologies enable lower cost, flexible energy solutions for consumers
- To support this transition, it is essential that distribution businesses work closely with customers to ensure that the network has adequate capacity to manage new connected devices, or to agree on mutually acceptable measures to manage periods of network constraint

Network

- Distributors have an expanding scope to improve the service we provide, at lower cost. Solutions include novel distributed generation solutions, demand management, remote monitoring and control, automated self-restoring networks, energy storage and much more.
- Our intent is to operate an open access network, allowing our customers maximum flexibility without compromising the safety and stability of supply. We enable customers to realise the benefits of emerging technology

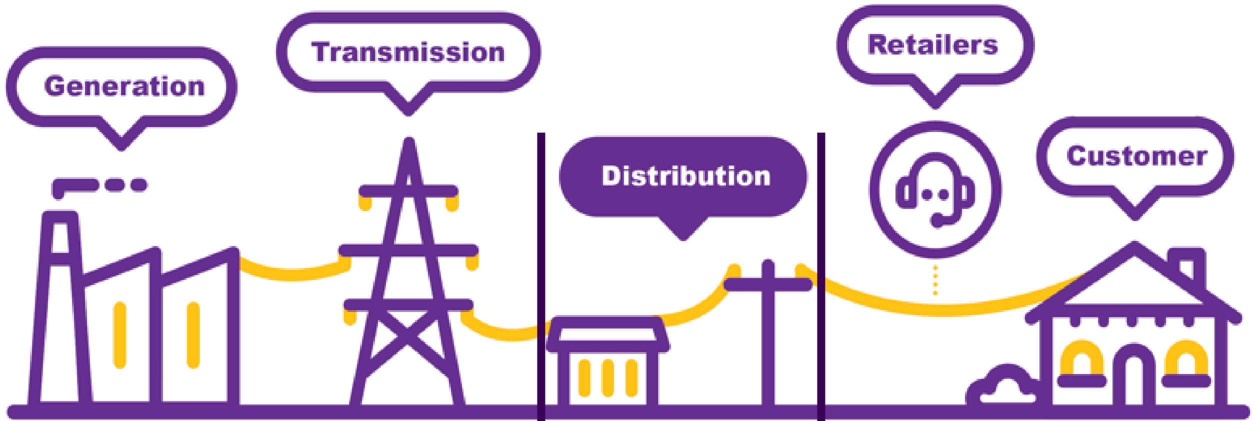
Cyber security

- As our reliance on connected digital devices increases, so does our vulnerability to cyber attacks
- We have a dedicated cyber security team and a well-established programme to continually upgrade our protection.

Power quality

- As we shift from traditional large generators to small scale renewable sources, we lose grid inertia (the system stabilising effect of large rotating turbines in generators). Renewable energy sources have little or no intrinsic inertia
- We continue to monitor the uptake of small scale generation on our network, and take steps to ensure we understand and manage the system impact of connected devices.

How electricity gets to you, and how it's regulated



High voltage electricity is generated using water, wind, geothermal, gas and coal.

Pylons move the high voltage electricity in bulk to Powerco substations.

Powerco substations reduce the high voltage electricity ready for customer use. Electricity is distributed via power lines and cables across the Powerco network.

Retailers sell delivered electricity to customers. They deal directly with the customer.

Electricity arrives at your home.

COMMERCE COMMISSION
NEW ZEALAND
Te Komihana Tauhokohoko

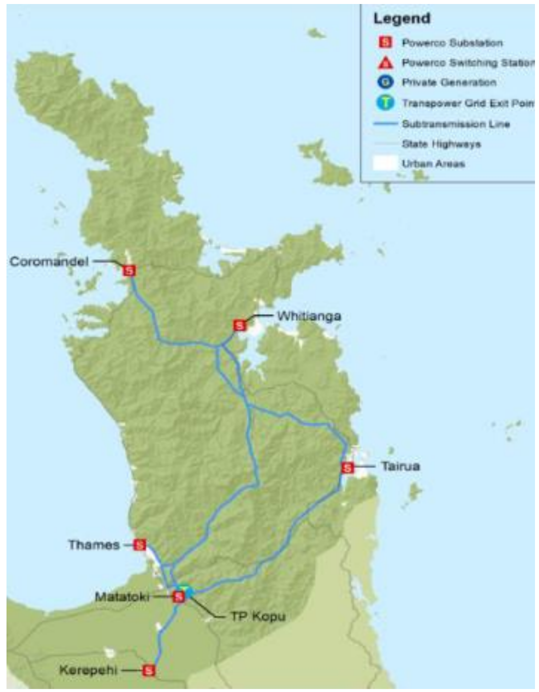
- Revenue/investment approval
- Quality standards (reliability)
- Disclosure requirements

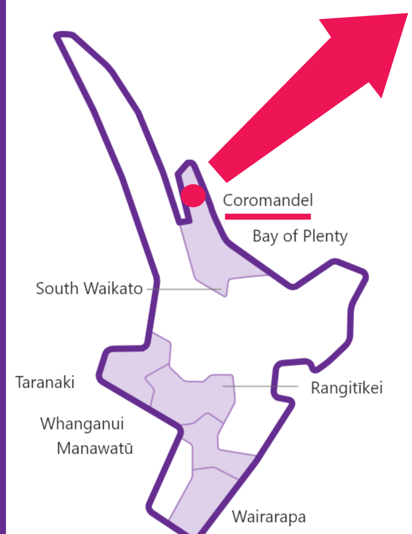
MOU

ELECTRICITY AUTHORITY
TE MANA HIKO

- Pricing of services
- Distribution agreements
- Common quality (assets)

[1] Case study: Lowest cost solution a combination of Powerco and market* supply





Situation

- Reliability of electricity supply compromised at peak holiday times
- Resolving this with a line upgrade is expensive relative to alternatives
- We tested the market for options in the three locations needed

Solution

- Alternative solutions are viable
- Two involve Powerco owning generation at lower cost than building lines
- A third is at RFP stage seeking a third-party supply of capacity support
- The lack of constraints allowed the lowest cost solution to be found

If Powerco *wasn't* allowed to build/own generation to solve this, consumers would face more expensive solutions

* The process is live at the time of writing this submission. We are hopeful that a market solution can deliver the requirements.

[1] More guidance needed on regulating contestable activities

Rules limiting distributor involvement in contestable activities have always been a matter of primary legislation because:

- regulatory certainty is important to facilitate investment
- restraining a market participant from participating in a service, or owning assets, is a significant policy choice with wide-reaching consequences for market function.

We support rules that ensure non-discriminatory access to networks and efficient procurement decisions by distributors. Simply extending the corporate separation/arm's-length requirements of Part 3 to other contestable activities would undermine the potential benefits of new technology by:

- limiting our ability to undertake research and development to understand the impact of new technology on our network
- undermining initiatives to provide more reliable, flexible and low-cost supply, particularly to remote and rural communities
- preventing us from building and operating assets ourselves in parts of the country that other suppliers are currently unable or unwilling to service

Currently the Bill does not contain any guidance to the Authority beyond the general empowering provision in s 32 of the Act. The implication of moving Part 3 of the Act into the Code is that the Authority will have the power to make rules that determine the structure of the industry and what activities participants are permitted to engage in. This has significant policy implications, though there is no clarity to guide the Authority about the intended boundaries of that rule-making power, the purposes for which the power can be exercised, or the considerations the Authority should take into account.

The EPR also recommended that, if this power were conferred on the Authority, it should be subject to merits appeal, which the Bill currently does not provide for (EPR Final Report, page 58).

We recommend the Bill is amended to clarify the purpose and limits of the empowering provision, and the considerations the Authority must take into account. We support the Electricity Networks Association's proposed amendments.

[2] Keep quality standards and investment decisions in one place, or require consultation

We do not support the proposal to make the Authority responsible for quality standards alongside the Commission.

The existing delineation between the Commission and the Authority was put in place to avoid unnecessary duplication of regulatory responsibilities, which:

- raises costs of the regulation; and
- increases the risk of incompatible regulatory requirements

The Commission is the natural home for quality regulation because of its role in evaluating asset management plans, scrutinising expenditure and setting allowable revenues. There is a close relationship between service quality and expenditure: improving service quality requires additional investment.

Conversely, the Authority has no role in approving expenditure or setting revenues and so there is a risk the Authority will set quality standards that are not achievable within the expenditure allowed by the Commission, or which conflict with the asset management plans against which the Commission has approved expenditure.

The Bill does not explain the problem that this amendment seeks to resolve, and which justifies the duplication of regulatory costs. The EPR considered it "*made sense for the [Authority] to regulate all parts of distribution agreements*" but without explaining the basis for that view (EPR Final Report, page 59).

If this change is to be made, we recommend amending s 54V of the Commerce Act to require the Authority to consult with the Commission before regulating quality standards or information requirements, consistent with the EPR's recommendation (EPR Final Report, page 59). As it is proposed to be amended, the Commission is required to "take into account" the Authority's decisions before exercising its powers, but the Authority is only required to "advise" the Commission *after* exercising its Code-making powers.

Given the Commission has at least an equal role – if not the primary role – in setting distribution quality standards and information requirements, the Authority should be required to consult with the Commission before exercising its powers in this area

POWERCO