

31 May 2021

Andy Burgess
Head of Energy, Airports, and Dairy Regulation
Commerce Commission
WELLINGTON

By email: regulation.branch@comcom.govt.nz

Dear Andy,

Response to Open Letter from 29 April 2021

Thank you for the opportunity to reply to your “Open letter—ensuring our energy and airports regulation is fit for purpose” dated 29 April 2021. This response focuses solely on emerging issues for electricity networks in order to inform your upcoming work programme.

ERANZ will participate fully in any formal consultations you undertake on electricity sector issues, but you have asked for industry’s views ahead of this in order to shape your thinking and planning.

The energy sector is undergoing a fundamental global transformation as we seek to dramatically cut greenhouse gas emissions. New Zealand’s Climate Change Commission has identified the transition of industry and transport from fossil fuels to predominantly renewable electricity as a key feature of achieving the country’s 2050 net zero commitment.

The electricity retail industry is very keen to play its part to help New Zealand achieving its emissions reduction goals. At ERANZ, we too have been thinking hard about how the quickly evolving policy and technological response to climate change is impacting on customers, industry, and decision-makers.

Customers must be the paramount consideration. It is not enough to only respond to climate change, we must do so while also ensuring policy settings ensure electricity is as affordable as possible for New Zealanders and reliability is maintained.

ERANZ acknowledges the challenges distributors face: securing supply to rural communities, renewing aging assets, investing for population growth, and now investing for higher demand for low-emissions electricity. Technology is causing some of these issues through greater demand for electricity, but technology can also provide some solutions.

In order to support technological innovation, it is worth the Commission considering how to trial distributors’ different ways of doing things to ensure such innovation is supported with viable revenue streams, but with confidence that customers are not paying for excessive experimentation. Once proven solutions are developed, the Commission should support their rollout across the industry.

Increasing non-utility local solar generation and electric vehicle charging will create challenges for distributors to managing power-flows on their networks. A 2017 paper from Sapere for the Electricity Authority goes into these issues. The overall change from transitioning to low-emissions electricity will require distributors scale up their own planning and operational capabilities or combine resources with others and utilise efficiencies of scale to greater effect.

New Zealander customers deserve to access competitive prices and innovative services regardless of where they live. The Commission should have regard to geography when approaching new regulations and support innovation nationwide. Already, different parts of the country benefit from accessing new products and services based on the ability of distributors to incorporate the technology into their network. Given the scale of the transition to meet our climate change goals, all of the country needs access to emissions-reducing technologies as they emerge.

Standardisation could be one way of achieving this. ERANZ welcomes the Commission's focus on benchmarking as a tool to drive performance, and consider benchmarking studies to identify opportunities and ensure customer wellbeing.

Customers' expectations from electricity are changing. The need for reliability and affordability is now being supplemented with the need for data and flexibility. Customers are wanting flexibility by incorporating either higher demand (electric vehicle charging) or lower demand (self-installed solar generation) or even a combination of both. Increasingly, our members are seeing customers deploying energy management systems to take advantage of this flexibility using technology to manage their time of use for optimal pricing, lower their overall energy needs, provide back-up in case of outages, and reduce their emissions.

Rising demand pressures on the sector will require greater generation and distribution assets. This phenomenon will drive investment demands and in turn, prices. In order to ensure the lowest-cost transition to low-emissions electricity, the Commission needs to ensure the operating environment encourages sensible trade-offs and avoids undue price increases on customers.

ERANZ encourages the Commission to prioritise the facilitation of markets through regulations that support innovation. Transpower is currently performing this role well and ensuring a clear pathway for participants who wish to innovate and compete. Given the scale of forecast demand for electricity and, therefore, demand on the distribution networks, consideration of how to manage this is required.

The twin regulators of the electricity sector, Electricity Authority and the Commission need to work together to protect the long-term interests of customers. This cooperation should extend to the way prices are attributed to the different parts of a participant's operations. In addition, joint consideration is required so companies do not use a monopoly advantage to create a competitive advantage in the new adjacent contestable markets.

Data can inform competition and lead to innovation. Data for activities such as network management could be considered useful for new companies looking to deploy commercial batteries, electric vehicle charging services, or demand management solutions. In addition, the Commission could use its intended "summary

and analysis” of disclosed information to provide commentary and insights into how the industry is evolving.

Finally, in this period of significant change it is important to have regulation that is flexible enough to cope with changes in technology and the operating environment. The wider energy sector is dealing with unprecedented uncertainty and speed of innovation – both technologically and in emissions policy settings. In this quickly evolving environment, it is right for the Commerce Commission to assess how it can play its role.

Thank you again for the opportunity to engage on the transforming electricity market. We look forward to more consultations as the Commission develops its thinking.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C Burrows', with a long horizontal flourish extending to the right.

Cameron Burrows
Chief Executive