Electricity Authority
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IPAG Equal Access Framework Project

Mercury appreciates the opportunity to provide feedback on the IPAG's Equal Access Framework Project. We fully support the Electricity Authority initiating this as a priority project on the IPAG's 2018 work plan. We agree that an effective open and equal access framework for electricity networks is critical to promote competition and efficiency for emerging technologies and energy services in the long term interests of consumers.

In our view, the current regulatory framework under Part 4 creates uncertainty by defining the line service as extending beyond the metering installation into the home. As members of the IPAG are well aware there is considerable competition, not just in the electricity sector, to provide smarter home services. Mercury considers this competition is essential to drive innovation and ensure technology risk is appropriately borne on the balance sheets of commercial businesses rather than electricity consumers. However, such competition risks being undermined where distributors are allowed roll out new technologies that are provided in competitive markets as regulated assets into homes and where, as the Authority notes, there are incentives to "raise barriers and block competition to favour themselves" in such markets.

We are aware of an example where a distributor has provided "free batteries" to households, justified on the basis of enhancing network reliability. However, it is currently not possible for other providers of battery services to validate such claims as there is currently no transparent way for the market to understand the network's needs or tender to provide the network the same or similar service that may be more cost effective for consumers.

Mercury considers this lack of transparency results in incentives for some distributors to acquire business and contract services from these related parties given the potential to earn unregulated revenue. Such concerns were raised in the recent Commerce Commission review on related party transactions. Vegetation management has become predominantly managed internally by related parties to EDBs despite the evidence suggesting external parties could be 33% (or greater) more cost effective[1].

The above trend toward related party transactions and stifling of competition is in Mercury's view only likely to increase unless there is clearer separation between the ownership and operation of distributed energy resources DERs) by distributors. We already observe an increasing push among some, but not all, distributors to advocate for centralised control of DERs through their own platforms rather than rely on market approaches.

Where distributors control such platforms but also provide their own DERs through unregulated related parties there is significant risk of inefficiencies and anti-competitive outcomes given distributors control network pricing, terms of access and potentially the physical dispatch of DERs on their platform. As such they face clear incentives to favour their own DER investments relative to their competitors.

[1] Asplundh submission to ComCom 11 August 2016 Input Methodologies Review – Related Party Transactions

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Mercury agrees with the recent Australian Energy Market Commission review that:

> "…centralised control over the installation and use of the services provided by distributed energy resources may make it easier for DNSPs to manage their networks in a technical sense, but would not support consumer choice or maximise the value of all services that those resources are capable of providing… The Commission considers that, regulation, however well designed, is likely to be a second-best alternative to well-functioning markets at promoting economic efficiency in the long-term interests of consumers."[2]

Mercury considers the model that Transpower currently employs serves as a useful template to consider reform of the distribution regulatory framework. Transpower adopt structural separation between the grid owner and system operator. They also promote transparency by providing assessments of constraints on the grid and facilitate the market for alternatives to network investment. Major capital investments are subject to an economic net benefit test where network and non-network options are evaluated in terms of greatest consumer benefit. A similar regulatory investment test has applied to Australian distributors for some time.

In our submission responding to the Electricity Authority's Emerging Mass Participation (EMP) consultation, we emphasised the lack of a level playing field and insufficient transparency and scrutiny around networks investment decisions. We reiterate these concerns to IPAG.[3]

Currently, there is significant information asymmetry between distributors and third-party service providers as to potential network investment opportunities.

As mentioned in our EMP submission, there are opportunities to enable greater participation and deliver more efficient outcomes by requiring distributors to disclose network investment opportunities and select options based on a net benefit framework. As part of this, distributors should also be required to produce forecast maps that transparently demonstrate anticipated network expenditure and network constraint. details of all related-party transactions that are not sourced in open competitive tenders should be disclosed.

We also consider there is merit in evaluating the options for greater separation of the ownership and operation of DERs by distributprs. In our EMP submission, we agreed with the Authority's assessment that distributors' involvement in unregulated activities needs strengthening. We suggested that the Authority explore 'ring-fencing' of the regulated service as a recommended solution. We maintain this view and suggest that IPAG look at whether ring-fencing could be implemented or promoted by the Authority and how it might work in practice. Other jurisdictions including Australia and the UK have taken very proactive regulatory steps to introduce ring-fencing for monopoly service providers. We would encourage IPAG to consider these international models which could have merit in being adopted here.

The disclosure requirements as regulated by the Commerce Commission could also be improved so participants can clearly see in the distributors' Asset Management Plans what investments in emerging technologies have been included in the Regulated Asset Base and on what basis.

We suggest IPAG consider and develop these recommendations so that they can be considered by the relevant regulators.

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[2] AEMC Distribution Market Model Final Report 22 August 2017

[3] Our submission is available at: https://www.ea.govt.nz/development/work-programme/evolving-tech-business/enabling-mass-participation/consultations/

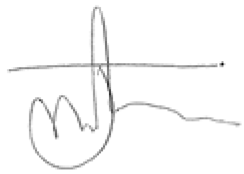
Consumer centricity and meaningful stakeholder engagement

The Australian and UK regulators are moving to a more open approach to electricity network regulation encouraging customer and stakeholder engagement in network management decisions.

In Australia, a new process has been established this year to enable consumers' interests to be reflected in network business proposals and regulatory outcomes.[4] The UK are consulting on giving stakeholders more opportunities to input into the network companies' plans so that they reflect what their stakeholders want and are willing to pay for.[5]

Generally, we recommend the IPAG take the principles from these initiatives on board, that the consumer's perspective is relevant and that distribution network solutions should promote the consumer interest. Mercury views the market and not centralised control is the best way to achieve this.

Your sincerely,



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[4] https://www.aer.gov.au/news-release/consultation-launched-on-new-approach-to-network-regulation
[5] https://www.ofgem.gov.uk/news-blog/our-blog/tougher-price-controls-energy-networks