12 April 2019

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Dear Kimberley

Electricity Authority / Commerce Commission Joint Project

This is Vector's response to the Terms of Reference (ToR) issued by the Electricity Authority (the EA) and the Commerce Commission (the Commission) for a joint project on electricity distributors' (EDBs') participation in markets for contestable electricity services. It may be publicly disclosed. Vector's contact for this submission is:

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Summary of Vector views

- We do not see a strong case for carrying out the joint project. EDB investment in emerging technology has been examined extensively by the Commission, and regulations are already in place to address potential competition concerns. The EA's Innovation and Participation Advisory Group (IPAG) has also been tasked with inquiring into this issue as part of its work on "Equal Access". The matter of emerging technology is creating a volume of work that seems to have no end.

- The ToR does not clearly identify the problem(s) the project is seeking to address, and fails to explain how exactly it will define "markets for contestable services". It is also not clear why the study is focused just on EDBs. Emerging technology has important implications for the broader sector, including Transpower and grid connected generators.

- If the study proceeds, it is essential that it takes a balanced assessment approach. The current ToR focuses primarily on the potential costs of EDB investment in contestable services, and makes little mention of the benefits, which in our view are substantial. Indeed, customers may benefit from providing EDBs with greater flexibility to invest in new technology, rather than introducing additional restrictions.

- We welcome the stated intention to rely on information that is already available in carrying out the study. However, it is crucial that the project is carried out transparently and EDBs are fully engaged in the development of the cost-benefit framework and subsequent assessment. Any expert advisors who are used to support the project must be independent and impartial.

Background

The emergence of new energy technologies such as electric vehicles, rooftop solar, smart meters and batteries is changing the way customers use the distribution system. Under the traditional electricity supply model customers were largely passive one-way users of the grid, but increasingly they will play a much more active role – managing peak demand via demand response, exporting power to the grid, and engaging in peer-to-peer trading.

New technologies are also blurring the traditional boundaries between "monopoly" and "competitive" elements of the electricity supply chain. For example, battery storage can serve both as an embedded part of a monopoly and provide competitive services such as wholesale market demand response.

Emerging technologies offer potentially transformative benefits, but also risks for networks and electricity users. As discussed in Vector's 2019 Asset Management Plan (AMP), new technology is having a profound impact on asset management by creating greater uncertainty around forecasts for network needs. We are actively engaged in energy scenario planning to develop insights into how our asset management strategies need to evolve.

Enabling the industry to meet the challenges of the new energy future requires a regulatory framework which is proportionate and considers opportunities for coordination and innovation alongside a traditional focus on competition.

Rationale for the project

We do not believe it is necessary to undertake a further investigation into EDBs' involvement in emerging technologies at this time. The Commission examined emerging technology as part of its Input Methodologies (IM) review in 2016, and subsequently undertook an information gathering exercise in 2018. The EA's Innovation and Participation Advisory Group (IPAG) has also been tasked with inquiring into this issue as part of its work on "Equal Access". The volume of work on the matter of emerging technology is imposing a significant burden on EDBs, and is also an ongoing source of regulatory uncertainty.

The Commission has issued clear guidance regarding the steps that EDBs should take to ensure compliance with Parts 2 and 4 of the Commerce Act when investing in emerging technology. This includes guidance on the allocation of costs and revenues between regulated and unregulated parts of the business, and the procurement of services from related parties. The Commission has been clear that where an asset is mainly used to provide the service of "conveyance of electricity by line" (such as a grid-connected battery) it may be included within the regulated asset base.

No evidence has been put forward to support the claim of problems arising from EDB investment in new technology. The concerns raised to date have been purely theoretical. This is reflected in the lack of a clear, evidence-based problem definition in the draft ToR. The ToR also fails to explain how exactly it will define "markets for contestable services", e.g. which services will be included in the scope of the review and why.

It is also not clear why the project is focused on EDBs alone. New technologies have direct implications for other stakeholders such as Transpower and grid-connected generators. If the study goes ahead it should consider all parts of the supply chain.

That said, we support the stated objective of better understanding whether the current regulatory arrangements are fit-for-purpose and able to support the best possible outcomes for consumers in the long term. We would also welcome greater transparency and certainty regarding the future regulatory framework, as regulatory uncertainty risks deterring investment in new technology at a critical time for the industry.

Assessment of benefits and costs

For the study to be credible, it is essential that the benefits of EDB investment in emerging technology are assessed alongside the costs. At present, the ToR focuses predominantly on potential harms to consumers and how regulatory tools could be used to address these harms.

We urge the Commission and EA to take a balanced approach in their assessment. In our view, there are considerable benefits to permitting EDB investment in new technology, and these benefits will only increase in the future – particularly in the context of our transition to a zero-carbon economy, growing infrastructure needs, and the need for greater resilience.

As mentioned above, emerging technologies are blurring the traditional boundaries between “monopoly” and “competitive” elements of the electricity supply chain. This means that EDBs’ network businesses will increasingly be exposed to competitive pressures, while the trade-off between the benefits of vertical coordination versus traditional horizontal competition is likely to shift. Experience in other jurisdictions such as Australia and Hawaii shows that restricting the scope for lines companies to invest in new technologies can lead to large cost increases for consumers.

In light of these developments, we consider that consumers could benefit from relaxing existing restrictions on EDB investment in new technology, rather than strengthening them.

Process

We support the stated intention to rely on information that is already available in carrying out the study. Responding to detailed information requests requires significant effort and resources to be diverted from providing our services to customers.

However, it is crucial that the project is carried out in a transparent and impartial way. EDBs need to be fully engaged in the development of the cost-benefit framework and subsequent assessment, particularly in light of recent experience with regulatory cost-benefit analysis. We therefore support the suggestion of holding workshops to seek input from the industry as the study proceeds. If expert advisors are used to support the project they must be independent and unbiased, and have credibility across the industry.

Yours sincerely

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