

12 August 2019

Dane Gunnell
Manager, Price-quality Regulation
Commerce Commission
By email to regulation.branch@comcom.govt.nz

Dear Dane

EDB DPP3 reset cross-submission

1. This is a cross-submission by the Major Electricity Users' Group (MEUG) on the Commerce Commission draft decision and reasons paper "Default price-quality paths for electricity distribution businesses from 1 April 2020" published 29th May 2019.¹
2. This submission is not confidential. Some members may make separate submissions.
3. Three topics are covered in this submission in the sections that follow titled:
 - a) Analysis of interruption timing.
 - b) Proposed innovation project incentive.
 - c) Transpower proposal for treatment of recoverable costs from investment contracts.

Analysis of interruption timing

4. Attached and to be read as part of this submission is a memo from Mike Hensen of NZIER titled "Analysis of interruption timing for EDB 2020-25 DPP Draft Decision cross-submission" dated 12th August 2019.
5. A snapshot of the conclusion in the NZIER memo follows:

Conclusion

Unplanned and planned outage SAIDI data for EDB has varied widely for the four largest EDB over the past ten years. The available data does not illustrate either a trade-off between planned and unplanned outages or any clear direction of travel in outages for the EDB as a group but does indicate that unplanned outages can fluctuate widely.

¹ Draft decision, <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-lines-price-quality-paths/electricity-lines-default-price-quality-path/2020-2025-default-price-quality-path#projecttab>.

Proposed innovation project incentive

6. In the submission round we advised that MEUG “does not support this proposal and instead recommends the Commission postpone consideration of an innovation project incentive mechanism until DPP4 ...” There was no new evidence in the submissions of other parties to alter our view.
7. Some submitters suggested a levy as proposed with project(s) administered through a pooling mechanism. For example, see a snapshot from the submission of Horizon Energy below:

5. Innovation Fund

39. The concept of the proposed allowance for innovation is welcomed but Horizon management support the pooling proposal and administrating this as a central innovation fund from which all distributors and their customers could benefit. The learnings from any project that is approved under this fund will have a greater impact across the wider country customer base if managed centrally.

8. The Electricity Networks Association (ENA) has a proven track record of co-ordinating complex projects for all EDB such as the Network Transformation Roadmap and the ENA Price guidelines for Electricity Distributors.² These publications address the challenges and opportunities for innovation in managing how new technologies might change physical flows across low voltage networks and innovation in pricing. ENA has funded this work from EDB without dedicated levies. EDB have chosen to allocate a portion of their regulated revenue income to these collective innovation related projects. MEUG sees no reason why:
 - a) EDB cannot continue to collectively pool resources under the banner of ENA, or any subset of EDB that see merit in collaborating, on further innovation projects using their discretion on how to allocate existing regulated revenue sources; and
 - b) If the cost of future projects is substantially greater than work undertaken to date, then EDB could consider joint ventures with non-EDB parties and or seek funding from various government research grant schemes.

Transpower proposal for treatment of recoverable costs from investment contracts

9. The proposal by Transpower may be worth considering. Factors to consider might include:
 - a) Whether the proposal could be considered as a subset of or alternative project structuring within the concurrent consideration of the treatment of leases; and
 - b) Being confident that there is no risk to consumers that the terms of such third-party finance contracts could lead to worse outcomes for consumers than the status quo.

² Refer list of relevant publications on these and other ENA projects for EDB at <https://www.ena.org.nz/resources/publications/>

10. We are not aware of any reason that consideration of the treatment of recoverable costs from investment contracts must be concluded before the DPP determination is, i.e. this is different from the treatment of leases that must be concluded before the re-determination.
11. If there is any risk of unintended consequences or complexities requiring additional Commerce Commission and or EDB resources to undertake further investigation, then this proposal by Transpower should be considered after the DPP redetermination.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Matthes', with a long horizontal stroke extending to the right.

Ralph Matthes
Executive Director