

3 August 2022

Dane Gunnell
Head of Price-Quality Regulation, Infrastructure Branch
Commerce Commission
By email to im.review@comcom.govt.nz

Dear Dane

IM draft framework cross-submission

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission "Part 4 Input Methodologies Review 2023, Draft Framework paper" dated 20th May 2022.¹ MEUG has separately made a cross-submission on the IM review process and issues paper.
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may lodge separate submissions.

The proposed IM framework is sufficiently robust to consider climate change effects

3. Several submitters recommended making consideration of section 5ZN of the Climate Change Response Act 2002 Act mandatory and not an optional consideration.²
4. In our view the existing IM review framework is sufficiently robust to consider all the potential impacts, both detriments and opportunities, that changes in climate may bring to the Part 4 regulated electricity suppliers and the consumers of those regulated services. An example of how the existing IM manage climate change effects is in the application of the grid investment test where externality effects of climate change are factored in with forecasts of ETS carbon prices and a risk assessment of possible changes in the physical environment such as increasing risks of flooding or extreme weather events. Similarly, we assume EDB when considering the feasibility of future investments test those against a range of ETS prices and physical environment risks.
5. There appears to be some confusion on the proposed use of the Climate-Related Financial Disclosures (TCFD) framework. Some submitters viewed the TCFD as an essential piece of the IM review framework. The consultation paper was clear on two points.
6. First the Commission proposed used to use "TCFD-style" framework³, i.e., not the entire TCFD recommendations from the Financial Stability Board in 2017.

¹ Submissions found at <https://comcom.govt.nz/regulated-industries/input-methodologies/input-methodologies-for-electricity,-gas-and-airports/input-methodologies-projects/2023-input-methodologies-review>

² E.g., Electricity Networks Association pp3-5.

³ Draft framework paper [3.25].

7. Second the Commission did not intend to require regulated suppliers to complete a TCFD disclosure, nor would the Commission produce one. The Commission intended to "... use TCFD framework to classify the climate-related issues raised by stakeholders that could impact regulated suppliers' operations."⁴ That approach has been used in Table 6, pages 39 to 43 of the process and issues paper. In that table a "TCFD-style" screening and issues categorisation approach has been used alongside other categorisation approaches to map issues for consideration.
8. TCFD has nothing to do with the next steps of reducing issues to a short-list for more detailed analysis and undertaking that analysis. For those next steps the statutory purpose obligations on the Commission and the existing three key economic principles are applied. The former, that is the statutory purpose obligations, is as we submitted, ideally measured by changes in the "long-term benefit of consumers."

A financeability test is unnecessary as multiple IM parameters can, if issues exist, be reviewed

9. Several submitters recommended a financeability test be added to the existing three key economic principles.⁵ A financeability test is needed, according to those submitters, because of issues such as volatility of returns and risks on insolvency are not, in their view, adequately addressed by the ex-ante real financial capital maintenance economic principle.
10. MEUG disagrees. There are multiple IM parameters the Commission has long-listed for possible review under the headings of Risk allocation and incentives and under price-quality regulation, and issues related to the cost of capital in chapters 5 and 6 respectively of the process and issues consultation paper that separately and in combination can address issues if they exist.

Yours sincerely



Ralph Matthes
Executive Director

⁴ Ibid [A12].

⁵ E.g., Wellington Electricity, pp3-4.