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A comment on the Commerce Commission's (ComCom) open Letter of Response to draft Recommendations by the Climate Change Commission (CCC)

The Climate Change Commission (CCC) has recommended that to enhance movement across New Zealand's energy sector towards reducing carbon emissions in a cost efficient and affordable way, so that ultimately the energy sector will be more or less carbon free, a number of changes need to be made with respect to the governance and operation of electricity distribution businesses (EDBs).

The ComCom has taken that responsibility on board.

ComCom's perceived new role, based on the CCC's advice can be paraphrased in plain speaking terms as follows:

1. To assess whether the decision makers associated with assets held by EDBs are sufficiently resourced, incentivised and innovative to support the adoption of new business models associated with new technologies that need to be built into an electricity distribution network to reduce its carbon footprint (note: that recommendation is simply repeated from the IEA Repot of 2017); and

2. To monitor and review capital and operational costs associated with installing carbon reducing technology to ensure that from a consumer perspective costs of the new technology are kept down so that electricity remains affordable and accessible to all.

We consider the objectives ComCom has derived from the CCC's recommendations are consistent with current thinking about climate change issues and thus are entirely appropriate.

ComCom's challenge will be to put in place strategies and processes that will have the desired effect of **keeping system costs down** in the face of incorporating new carbon reducing technology within electricity distribution networks.

Consider ComCom's suggestion that the installation of demand response technology and its associated management as being one way in which system costs associated with installing carbon reducing technology could be made cost effective.

The problem is that many EDBs throughout New Zealand have been visited by Electricity Authority staff, the purpose being to ensure that all network system costs to be met by consumers are based on efficient pricing.

As ComCom and network operators are well aware 'efficient costs' and its corollary 'efficient pricing' require that all charges to consumers levied by electricity networks are now required to reflect the network cost of providing a consumer's level of service.

With respect to the success or otherwise of ComCom being able to put in place a strategy, embodying a new set of rules to reduce the carbon footprint of electricity lines network systems, whilst ensuring that system costs are kept down, the devil is in the detail.

Requiring EDBs to adopt 'efficient pricing' resulted in a significant change to the way in which costs to consumers had, for decades, been made.

The majority of EDBs employed a volume based charging system such that lines charges were based primarily on how much electricity a consumer used.

Efficiency pricing on the other hand is a **capacity** based charge. Whether a consumer fully utilises the capacity of the network assets that conduct electricity to the consumer's source of supply is, irrelevant. The same charge applies 12 months of the year.

Our recommendation is that the Commerce Commission and the Electricity Authority work together on how to ensure that system costs associated with reducing the carbon footprint of electricity networks can be kept down in the face of the required efficient pricing regime.

J Clements

John Clements
Chairman