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Simon Wakefield
Principal Adviser, Price Quality Regulation
Commerce Commission

By email: infrastructure.branch@comcom.govt.nz

Dear Simon

Response to the open letter on local lines networks: achieving better outcomes for consumers now and in the future

Marlborough Lines Limited (MLL) owns and operates the electricity distribution network in the Marlborough region, distributing electricity to approximately 27,000 consumers. MLL is owned by the Marlborough Electric Power Trust (MEPT), which comprises six consumer elected trustees. The trust holds the shares on the behalf of the consumers connected to the MLL network.

MLL appreciates the opportunity to provide feedback on the Commerce Commission's *Open letter - Local lines networks: achieving better outcomes for consumers now and in the future.*

MLL supports the Commission's objective of improving outcomes for electricity consumers. We also support the proposed focus on electricity distribution businesses (EDBs) delivering core network operations well, having strong commercial arrangements in place and building capability for the future.

As a consumer trust owned EDB, we strongly support regulatory initiatives that can demonstrably improve outcomes for our consumers and agree that consumers should not bear the cost of genuine inefficiency.

We support the submission made by Electricity Networks Aotearoa (ENA) and do not seek to repeat the detailed points made in that submission. Rather, this response highlights several matters that we consider particularly important from our own perspective.

1. Focus on outcomes and define what "good" looks like

MLL strongly supports establishing a clear view of what good EDB performance looks like. However, we consider this should primarily be defined in terms of outcomes for consumers, rather than particular business structures, systems, procurement methods or operating models.

Good outcomes should include safe and reliable electricity supply, resilience, affordability, good customer service, efficient connections, prudent asset management and appropriate preparation for future demand and increasing electrification.

We therefore support ENA's view that Part 4 regulation should focus on the outcomes consumers receive and should not unnecessarily prescribe a single way of achieving those outcomes.

EDBs operate in materially different circumstances. The systems, capabilities and operating arrangements that are efficient for one network may not necessarily be efficient for another. Regulation should preserve the ability for EDBs to find the most efficient means of delivering consumer outcomes. Regulation should also consider that consumer-owned EDBs may be best placed to determine what outcomes are best for its consumers.

2. Regulatory intervention should be evidence based

MLL particularly supports ENA's proposition of "problems before solutions". Before introducing stronger financial or reputational incentives, the Commission should clearly identify the consumer harm or performance problem it is seeking to address, understand its cause, assess whether it is within the reasonable control of the EDB, and consider the costs and benefits of alternative responses.

This is particularly important given some of the potential regulatory interventions identified in the open letter. Measures affecting expenditure allowances, RAB recognition or consequential compensation could have significant implications. In our view, interventions of that nature require a strong evidence base and careful consideration of unintended consequences before implementation.

Regulatory initiatives should also be evaluated after implementation. MLL's recent submission to MBIE[1] noted that regulatory proposals generally contain cost-benefit assessments, but that MLL has not seen evidence that the actual costs and benefits are subsequently reviewed against the assumptions made when the intervention was introduced.

If EDBs are expected to demonstrate that investment decisions deliver benefits to consumers, we consider it reasonable that significant regulatory interventions are subject to reviews on their effectiveness and whether intended outcomes and benefits are being realised.

3. Efficiency must be considered in context

MLL agrees that EDBs should operate efficiently. However, care is required to distinguish inefficiency from the underlying cost of operating a particular network.

MLL operates a network with significant areas of remote and rugged terrain, difficult access and low consumer density. More than 58% of MLL's overhead network is located in rugged or remote terrain. These characteristics materially affect the costs of inspection, vegetation management, maintenance, fault response, asset renewal and resilience.

MLL is also experiencing significant cost pressures that are not simply a function of organisational efficiency. Our recent submission to MBIE identified, among other things, increasing regulatory and compliance costs, cybersecurity and digital technology expenditure, traffic management costs, resilience investment, transmission charges, materials and equipment costs, labour costs and vegetation management requirements.

These factors are important when comparing EDB performance. A higher cost per ICP, for example, is not necessarily evidence of inefficiency where one network serves a concentrated urban customer base and another maintains extensive infrastructure through low-density and difficult-to-access areas.

MLL therefore supports contextual benchmarking as a tool for identifying areas worthy of further investigation but does not support benchmarking being used as a shortcut for determining efficiency without understanding the underlying drivers of the result. This is consistent with the position MLL recently put to MBIE.

A practical example of a cost outside an EDB's control, but ultimately borne by consumers, is access to smart meter data. Smart meters are already installed across our network, yet the data they collect is held by two main metering equipment providers. Acquiring that data is costly and is an ongoing expense funded by consumers, even though the metering is already in place and arguably already paid for.

MLL expects to spend around $175,000 per year on smart meter data and analytics services and platforms. We need this data to evolve our distribution system operator capabilities; with more distributed energy resources (DER) connecting, particularly increasing rates of solar uptake, we need greater visibility of our

[1] Discussion document for the electricity distribution businesses

low voltage network to operate it safely and efficiently. MLL encourages the Commission to consider access to metering data, and the cost of that access, when assessing efficiency and consumer outcomes.

4. Collaboration and standardisation where they benefit consumers

MLL supports greater collaboration and standardisation where there are demonstrable benefits for consumers.

MLL already participates in a range of collaborative arrangements and has an increasingly close shared-services relationship with MainPower, including sharing regulatory expertise and experience and developing mutual support arrangements for critical business functions.

We therefore support exploring further opportunities to collaborate, share capability, standardise and jointly procure where doing so produces genuine efficiencies.

However, collaboration and standardisation should remain means to achieving better outcomes rather than objectives in themselves. They cannot remove underlying cost drivers such as geography, low consumer density, vegetation, difficult access or exposure to natural hazards.

Similarly, MLL does not consider that organisational scale or ownership structure should be treated as a proxy for efficiency. The important question is what arrangement delivers the best outcomes for consumers.

5. Consumer ownership should be properly recognised

MLL welcomes the Commission's acknowledgement that communities may prefer to own their electricity infrastructure. The Commission nevertheless encourages smaller EDBs to objectively consider collaboration and ownership options where scale efficiencies may exist.

MLL supports objectively considering opportunities that improve outcomes for consumers. However, local ownership is itself valued by our consumers. Our recent submission to MBIE recorded that 93% of respondents to MLL's consumer survey considered local ownership important. It also noted that MLL has returned more than $190 million in discount payments to consumers since 2000.

These are relevant consumer outcomes and should form part of any assessment of alternative ownership or operating arrangements.

For a consumer-owned EDB, there is also an important distinction in the Commission's proposition that inefficiency should be borne by shareholders rather than consumers. For MLL, the shareholders' economic beneficiaries and the consumers are substantially the same community. ENA makes a similar point in its draft response.

This does not diminish the obligation to operate efficiently. Rather, it reinforces the importance of regulatory intervention addressing the cause of any demonstrated inefficiency, rather than simply transferring a cost between consumers and their collectively owned company.

6. Coordination and regulatory burden

Finally, MLL supports ENA's call for greater coordination and prioritisation across the regulatory system.

The Commission, Electricity Authority, MBIE and other agencies are progressing a substantial number of initiatives affecting EDBs. Those initiatives draw upon many of the same regulatory, engineering, pricing, asset-management, digital and operational resources that are also required to operate and improve networks.

MLL supports ENA's proposal for a more coordinated and prioritised programme of regulatory work, focused on those initiatives that offer the greatest potential benefit to consumers.

Regulatory compliance is not costless. Those costs are ultimately reflected in the overall costs borne by consumers. The same focus on efficiency and value for money expected of EDBs should therefore also apply to the development of the regulatory framework.

Conclusion

MLL supports the Commission's objective of achieving better outcomes for consumers and broadly supports its proposed future-state vision.

We particularly support an approach that:

- defines success through consumer outcomes;
- starts with an evidenced problem before determining the regulatory solution;
- distinguishes genuine inefficiency from legitimate network and externally driven costs;
- recognises the materially different circumstances in which EDBs operate;
- supports collaboration and standardisation where there is demonstrable net consumer benefit;
- recognises the value consumers may place on local ownership;
- avoids regulatory intervention that inadvertently discourages prudent investment in reliability, resilience or future capability; and
- prioritises and coordinates regulatory initiatives so that resources and consumer costs are focused where they can deliver the greatest benefit.

MLL would welcome continued engagement with the Commission as this work progresses. As we also offered in our recent submission to MBIE, we would welcome the opportunity for Commission staff to visit Marlborough to gain a practical understanding of the geographical, access, resilience and consumer-density challenges associated with operating significant parts of our network.

Yours sincerely



Tim Cosgrove
CEO