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Nathan Strong – Associate Commissioner
Commerce Commission

Via email: **infrastructure.branch@comcom.govt.nz**

Northpower response: Open letter – Local lines networks: achieving better outcomes for consumers now and in the future

Tēnā koutou

Northpower supports a distribution sector vision where local lines companies enable consumers to meet their changing energy needs at the lowest sustainable cost. Achieving this will require electricity distribution businesses (EDBs) to strengthen asset utilisation, improve delivery efficiency, and make better use of non-network solutions to support greater energy flows across current networks.

Core to achieving this vision is a cost effective and flexible network architecture and physical asset management. Northpower supports the premise that stronger performance disciplines combined with well-designed regulatory reform are essential in ensuring this outcome. We see effective regulation as a system enabler that can strengthen confidence, accountability, investment discipline and New Zealand's future economic success, rather than simply moderating or controlling the price of network services.

We also consider consumer agency to be core to delivering value from future markets. Energy solutions such as solar, electric vehicles, energy storage and energy management systems are now proven and able to play a part in the electrification of NZ's economy. Strong customer enablement, and advanced local system orchestration (including direct integration with DER) must be viewed as a critical element of distribution system evolution, not a nice to have, or an add on.

Given these imperatives, Northpower supports your proposal to define a distribution sector vision (define what good looks like) alongside developing sector benchmarking processes to spotlight achievable high-performance outcomes (defining the performance benchmarks that should apply). These elements should span both core distribution delivery, and customer and system orchestration. Clear definition plus benchmarking has the potential to help identify the lowest cost, most effective path to support the energy transition, and to enable that to be scaled across all parts of the electricity distribution system.

In line with this overall position statement, we have summarised our response in the bullet points below. Our full response to the specific questions is provided in the ***Appendix***. Our response is consistent with our recent response to MBIE's *Discussion document for the electricity distribution businesses.*

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Key aspects relating to regulatory vision:

- Northpower supports a future-state focus on strong core network asset management, commercial and technical arrangements which effectively support non-network solutions and flex, and a regulatory framework tailored to providing both clear definition of requirements, and structured benchmarking to test performance.

Aspects relating to delivery:

- EDBs should be accountable for providing fit for purpose asset management plans and practices, adequate and timely investment, efficient core delivery, including delivery within sector benchmarks as these emerge over time.
- EDBs should be accountable for making suitable investments in the systems, customer liaison, and market arrangements to support flex on the network. Investments should be commensurate with the value available to a consumer, including the efficiencies gained at a network level.
- EDBs should be accountable for enabling network access, and information on capacity, performance, and target service levels in a transparent timely way, and in a way that provides market proven prices where possible and economic for connecting parties.
- EDB systems should place consumers at the centre, enabling them to choose residential or grid solutions that suit their economic needs. EDBs should remain solution agnostic, enabling consumer markets to determine the best long-term solution.

Outcomes relating to regulatory design:

- Regulatory standards should be explicit regarding the outcomes being sought by regulation, and the outputs which distribution companies should seek to achieve. Standards should seek appropriate long-term value for consumers, not simply lowest near-term cost.
- Regulatory design should initially focus on generating improved insight, like-for-like benchmarking, asset-management capability, network visibility, faster connections, collaboration and shared services, the focus should be on putting a spotlight on good practice.
- Benchmarking should set clear standards and account for network-specific differences such as geography, density, resilience requirements, asset condition and customer composition, and should first be used as a reporting and targeted-engagement tool rather than to set prices.
- Regulation should set clear outcomes and performance expectations once benchmarks are established while preserving flexibility in how EDBs achieve them, on the premise that sustained delivery below defined performance levels may trigger intervention.
- Common standards, interfaces, procurement and shared-service arrangements should be pursued as options in response to benchmarks as these are established, to avoid the regulator becoming responsible for operational execution.
- Regulation should align incentives and investment approvals to target outcomes, ensure predictable cost recovery, access to data at a price set to optimise consumer outcomes, and proportionate intervention where underperformance is identified.

Northpower is keen to continue to engage with the Commission through the process of improving the regulatory environment, including in the process of setting industry benchmarking. We are very happy to meet with and discuss effective regulatory design and the content of this response at any time.

Ngā mihi



Andrew McLeod
Chief Executive
Northpower Limited

Appendix

1. Is the proposed future state focus of EDBs delivering core network operations well, having strong commercial arrangements in place and building capability for the future appropriate?

Yes. The three proposed areas - delivering core network operations well, maintaining strong commercial arrangements and building capability for the future - are an appropriate foundation.

Ensuring dependable core operations will need to include lifting network utilisation of existing network capacity by harnessing new systems, commercial tools and procurement mechanisms. Future network capabilities will require the ability to respond to electrification, digitalisation, resilience risks and changing consumer needs.

The underlying regulatory framework should support these imperatives.

2. Are there aspects which you consider are not adequately addressed within the Vision statement which are either impacting performance now, or are likely to in the future?

Northpower's vision of 'good' performance for a local lines company would also include elements of how the 'local' aspect of being a local lines company can provide benefits to a local economy beyond just good performance (e.g. employment opportunities and local procurement).

In addition, the vision statement needs to be future-focused and consumer-centric. Consumers will need to have the tools and flexibility to optimise their personal energy use via effective integration of residential solar, EV charging and battery systems. There will be more opportunities that we have not yet considered in the future as our electricity system continues to evolve.

These tools will need to be backed by simple, flexible and pragmatic, customer-facing systems so consumers can make choices and balance self-generation, consumption, export and purchase of energy.

3. What are the industry's priorities, based on the needs of current and future consumers, and are we aligned?

3.1. Where are the biggest areas of focus where a material difference can be made for consumers and the potential hierarchy (priority) of these?

In our view, the biggest areas of focus are:

1. Asset management - asset management is the primary determinant of expenditure efficiency over the long term, and so investment in, and maturity of, asset management systems should be positioned as necessary for approval of expenditure profiles. The focus should not only be on the management system itself (e.g. alignment with ISO55001) but also include the effectiveness of the asset management system (i.e. the outcomes the management system is delivering).

2. Expenditure levels - given the value of the energy transition to New Zealand, it is critical that EDBs invest adequately to enable the level of electrification critical to New Zealand reaching its economic goals, failure to do this creates material strategic risks.

3. Core delivery efficiency - every dollar spent on the energy system is a cost that is baked into the long run cost of systems. EDBs should have good investment governance processes in place to ensure that investments are appropriately challenged, delivered

efficiently and delivering the value expected. The Commission should maintain effective oversight of expenditure efficiency to ensure organisations are investing at an efficiency level comparable with good practice.

4. Network enablement - the energy transition provides material value to consumers and New Zealand as a whole. EDBs should have clear plans on how this future value will be enabled, orchestrated, and delivered.

3.2. How should priorities be valued/evaluated, and what level of assessment or quantification may be good enough for proposed regulatory interventions?

Priorities should be evaluated against the value to consumers and New Zealand's energy strategy.

The energy transition provides a compelling opportunity to support New Zealand's economic growth with abundant, renewable energy. An adequate supply of grid connected projects exists to support a doubling of New Zealand's energy use and direct consumer participation, via electrification and direct generation in homes is a valuable additional contributor.

Northpower therefore sees the primary organising lens should be consumer and economic enablement. Ensuring that the right investments are being made to support longer term electrification and ensuring that New Zealand is able to benefit in a timely manner from the energy transition. The downside risks of failing to prioritise on this basis are too high.

Once that assessment has been completed, the critical enabling elements defined and the performance expectation set, the Commission's focus should mature to ensuring efficient delivery is understood and enforced. This is where benchmarking and comparative performance can be best applied.

At that point priority should be given to measures that improve transparency, comparable performance assessment / benchmarking, asset-management capability, network visibility, the speed and efficiency of connection processes, and access to practical collaboration opportunities and shared services. Changes that affect cost recovery or regulatory recognition of investment should follow only when relevant standards, procurement arrangements and implementation pathways are sufficiently mature.

Northpower agrees that there is significant potential to realise greater benefits of scale through practical collaboration, standardisation, shared services and aligned procurement. As one example, Northpower's Energy Services business provides specialist maintenance and construction services across most EDBs in the North Island, sharing access to current work methods, scale efficiencies and new technologies. There is likely to be further opportunities for EDBs to share some systems, operational capabilities and overheads where this is efficient and operationally appropriate.

Northpower supports work to standardise equipment, technical specifications and interfaces. However, measures that make regulatory recognition of commissioned assets conditional on standard specifications or at-scale procurement should be introduced only when suitable sector arrangements are sufficiently mature and accessible. A phased approach to this would avoid penalising efficient investment while the necessary standards and procurement mechanisms are under development.

Northpower also supports careful scrutiny of operating costs. Comparisons must, however, be genuinely like-for-like. Measures such as operating expenditure per installation control point can be distorted by differences in network density, geography, resilience requirements, asset condition,

and customer composition. Any benchmarking should use a carefully balanced set of measures and account for the individual circumstances in which each network operates.

The initial value is that benchmarking provides a clear reporting / comparison tool (in addition to the current information disclosure) rather than to set prices. It would allow targeted engagement and / or intervention when organisations fail to achieve an appropriate benchmark.

4. How are EDBs internally determining the capabilities required to deliver most effectively and efficiently for their consumers and setting the path towards a future state? What is this compared against? Is there a specific set of Board level metrics which are tracked or specific information which it would be useful to require for disclosure to the Commission to better allow comparison?

Northpower supports targeted capital programmes that deliver optimum value. Our Asset Management Transformation Programme is strengthening our ability to deliver efficient, risk-based renewal and maintenance programmes supported by robust data, analytics and investment governance.

This work is intended to improve the timing and prioritisation of expenditure, strengthen asset condition and risk insight, and ensure that investment decisions are transparent and connected to customer outcomes. We are also progressing towards alignment with ISO 55000 asset-management practices and are undertaking further assurance against that framework.

Regulation should encourage these capabilities while avoiding overly prescriptive measures that substitute standardised processes for sound network-specific judgement and decision-making. The appropriate test should be whether an EDB can demonstrate disciplined asset management, efficient delivery, and improved consumer outcomes.

Network utilisation and future capability

Northpower agrees that EDBs must improve visibility of system costs and use existing network capacity more effectively. Our Network Transformation work is developing the capabilities needed to manage the network more flexibly, improve utilisation and avoid or defer future reinforcement where doing so provides better value than conventional investment.

We are mindful of the need to establish these capabilities before growth-related constraints become material. Northpower has been proactive in modelling its networks, using the scenarios set out for distributed energy set out by MBIE and other key stakeholders. Our networks have been confirmed as being able to accommodate all key scenarios in the medium term, enabling new solutions to deploy as economics dictate.

The regulatory framework should support staged and proportionate investment in network visibility, flexible connections, pricing, and distributed-energy capability. It should not assume that every EDB must adopt the same operating model or build the same capability at the same time.

Investment should be driven by demonstrable network need, customer benefit and readiness. Care should be taken to avoid making investments where this is not clear.

Customer and stakeholder interactions

Northpower supports common, streamlined interfaces and processes where these reduce costs and improve customer experience.

Northpower is committed to adopting effective sectoral solutions as they develop, including improvements in connection processes, information exchange and pricing structures. However, standardisation should remain focused on areas where commonality creates real value, rather than for the sake of it.

Northpower is an advocate of the critical role of Electricity Networks Aotearoa (ENA) in identifying optimal solutions, and providing both an organising function, and a single interface on key issues. Northpower is committed to delivering the ENA committed initiatives currently in train.

ENA is well placed to identify key areas of value, noting standardisation cannot prevent innovation or require replacement of effective systems without a demonstrable net consumer benefit.

5. What is needed from regulators/regulation/legislation to enable achievement of the vision and outcomes?

The regulatory framework should set very clear outcomes and performance expectations, while preserving flexibility over how businesses achieve them. This approach will be the most efficient – both for EDBs and the regulator. The framework must also support timely investment, innovation, efficient collaboration and proportionate escalation where performance or risk warrants intervention.

In relation to the Commission sector oversight role, we see merit in stronger tools to define, measure, and report on EDB performance. We consider it likely this would create appropriate organisational and sector focus in achieving performance including making necessary investments into systems and supporting assets.

In relation to the Commission's enforcement role, if EDB underperformance is identified, interventions could be achieved relatively simply by applying independent review, and requiring committed plans (detailing investments, capability, and programmes of work) to address any systemic underperformance.

Northpower supports the idea of setting a “minimum standard of capability” for EDBs, however this should be developed with industry and focus on the outcomes the capability should achieve, rather than specific digital systems. This would leave it open for EDBs to deliver this capability in its own context and drive innovation.

5.1. What other enablers are important or essential within our, or other, regulatory regimes?

Important enablers include coordinated regulatory work programmes within and across agencies, predictable cost-recovery settings, access to consumption and network data at reasonable cost, common technical and customer interfaces, mature sector procurement arrangements, workforce capability and clear treatment of non-network solutions.

The Commission should also recognise well-governed delivery models that create scale and capability (which can be achieved without requiring ownership / structural consolidation).

5.2. What should we deprioritise/reduce regulatory burden on?

The Commission should seek to identify and quickly remove duplicative reporting, prescriptive process requirements and measures that do not materially improve consumer outcomes or regulatory decision-making. Existing disclosures should be reviewed for efficacy and efficiency before new requirements are added, with particular attention to removing overlap between regulators / agencies.

6. What timescales are feasible?

Implementation should be staged according to the maturity of sector standards, data, procurement arrangements and EDB capability. Near-term priorities can include clearer expectations, common definitions and improved benchmarking. Measures requiring material system, workforce or operating-model change will need longer lead times and proportionate transition arrangements.

Reflecting the importance of the sector to consumer and broader economic outcomes, and acknowledging the increasing pace of sectoral change, where change can be introduced quickly with little risk and clear benefit, these changes should not be delayed.

6.1. For EDBs, do you have a clear work programme which identifies when certain capabilities or insights will be more readily accessible?

Yes. Northpower has active Asset Management Transformation and Network Transformation work programmes. These are progressively strengthening asset-health information, risk-based investment planning, network visibility, flexible connection capability and the use of non-network solutions.

Northpower can provide further detail on milestones as the Commission develops its work programme.

7. For smaller EDBs, where cost is identified as the key reason for not progressing system or capability development - how is the impact of this assessed and quantified?

Northpower has not experienced this issue. We note vendors often price to reflect scale, and that open sharing of system configuration may reduce the price for entry for some systems.

In general, we note cost barriers should be assessed against the expected whole-of-life consumer benefit, the materiality and timing of the network need, available shared-service or sector solutions and the cost of alternative approaches.

In line with our opening comments, assessment should also consider whether capability can be accessed commercially or collaboratively rather than built separately by each EDB.

8. What are the barriers to increased consolidation and standardisation within the Part 4 regime? What is needed to overcome or reduce these barriers?

Some barriers include transaction costs, differences in network needs and timing, uncertainty about cost recovery, immature common standards, legacy systems and limited access to shared procurement or delivery mechanisms.

Northpower anticipates that, where the regulatory regime is clear on the outcomes to be achieved and the benchmarks to be realised, organisations will quickly orientate to find a solution. At times this will include collaborative work, or procurement from organisations who have broader capability.

The Commission should first remove unnecessary regulatory barriers and support transparent benchmarking, common standards and commercially grounded shared-service models.

9. Are there particular proposed potential regime changes where you consider alternative approaches may be more impactful and easily implemented by both EDBs and the Commission?

Yes. In some areas, transparent benchmarking, targeted independent assurance, common technical standards, coordinated procurement, shared services and graduated regulatory responses may deliver benefits sooner and at lower cost than broader structural intervention.

Once again, Northpower believes that optimal approaches will emerge once outcomes and benchmark performance is established. Attempting to define the optimal approach at a regulatory level is likely to be suboptimal, and lack the adaptability needed given the pace of the energy transition.

Once outcomes and performance standards are established, the appropriate tool should be matched to the evidenced performance problem and consumer risk.

10. On the Commission's process from here – how do you think our work programme could be best developed in coordination with the sector?

The Commission should establish a transparent, sequenced programme with clear outcomes, dependencies, milestones and opportunities for co-design and testing. It should coordinate activities with MBIE, the Electricity Authority, Electricity Networks Aotearoa and affected EDBs, use existing sector initiatives as the starting point, and avoid duplicative or conflicting requirements.