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National Security Group
Department of the Prime Minister and Cabinet
Level 8 Executive Wing
Parliament Buildings
Wellington 6011

Via email: infrastructureresilience@dpmc.govt.nz

SUBMISSION ON THE DISCUSSION DOCUMENT: STRENGTHENING THE RESILIENCE OF AOTEAROA NEW ZEALAND'S CRITICAL INFRASTRUCTURE SYSTEM

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Department of Prime Minister and Cabinet's discussion document 'Strengthening the resilience of Aotearoa New Zealand's critical infrastructure system' from June 2023.

ERANZ is the industry association representing companies that sell electricity to Kiwi households and businesses. Our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Executive Summary

ERANZ and its members support the government's efforts to increase infrastructure resilience and help deliver the critical goods and services New Zealanders depend on to boost economic growth and provide higher living standards.

Consumer pressures are emerging across the economy following a relatively benign period. Household average electricity bills have declined in real terms over the past ten years. However, this pattern is unlikely to hold due to three critical challenges: security of supply in the face of increasing adverse weather events, the investment required to transition to a zero-carbon economy, and the flow-on effects from recent high inflation. The government must assess the costs of increasing infrastructure resilience against consumers' ability to pay.

The electricity sector in New Zealand already benefits from a well-established and comprehensive regulatory system that emphasises security of supply and resilience. The presence of electricity-specific regulators with in-depth sector knowledge ensures effective oversight and targeted interventions. In cases where additional resilience requirements are identified, utilising the existing regulatory framework and experienced overseers is a prudent and practical approach to ensure a resilient and reliable electricity supply.

Consumer affordability is challenging

The consultation paper identifies four threats across climate change, national security, economic fragmentation, and rapid technological change. ERANZ agrees that these "megatrends" are a helpful framework for assessing weaknesses in our current infrastructure oversight mechanisms.

ERANZ stresses the importance of the competing objectives not discussed in this consultation paper but listed in paragraph three: efficiency, affordability, sustainability, and competition. All of these are

extremely important and must carry equal weight with resilience when assessing policy options and their trade-offs. Whatever options are proposed will result in infrastructure owners investing further in their assets to mitigate risks which, in turn, is ultimately paid for by consumers.

While infrastructure resilience is worthy of deeper examination through this process, ERANZ urges officials to consider the whole-of-government work programme placing upward pressures on consumer prices.

In this document, DPMC acknowledges that the policy direction is likely to increase consumer prices. However, three electricity-specific "megatrends" are already expected to put significant pressure on power prices in the future. There is a need for a whole-of-government view on these pricing pressures to prioritise which policy changes are necessary and which are nice to have.

1. There is already investment in hardening assets against the effects of increasingly severe and frequent adverse weather events. Cyclone Gabrielle is just the latest example where the industry is learning what risks are essential to mitigate.
2. The transition to a zero-carbon economy will require \$42 billion¹ of investment this decade alone to build the required renewable electricity generation, transmission and distribution infrastructure.
3. The highly regulated distribution and transmission sectors will need to recover abnormally high rates of inflation and interest rates over recent years through upcoming price increases.

Combined, these three factors are likely to lead to consumers paying more, which must be considered when assessing the benefit-cost payback of any proposed options.

Use electricity-specific levers

The electricity sector in New Zealand operates within a robust regulatory framework, which prioritises security of supply and resilience. Given the critical nature of electricity in supporting various aspects of everyday life, ensuring that the sector remains stable and resilient against potential disruptions is imperative. The existing regulations governing the electricity industry have been designed to address these concerns, and they play a vital role in overseeing market participants' operations.

One noteworthy aspect of the regulation is the oversight of infrastructure investment. This ensures that companies in the electricity sector make prudent and strategic investments to enhance the reliability and efficiency of their infrastructure. By mandating certain investment practices, the regulators aim to create a more resilient power grid capable of withstanding challenges such as extreme weather events or unexpected equipment failures.

Moreover, the presence of electricity-specific regulators with deep knowledge and experience in the sector is a valuable asset. These regulators possess a comprehensive understanding of the intricacies and unique challenges the electricity industry faces. Their expertise allows them to effectively assess risks, identify potential vulnerabilities, and propose targeted measures to enhance infrastructure resilience.

In the event that additional infrastructure resilience requirements are deemed necessary, leveraging the existing regulatory mechanisms and experienced regulators makes logical sense. Introducing new regulations or creating separate oversight bodies could lead to redundancy and administrative complexities. By building upon the established regulatory framework, policymakers can ensure a streamlined and coordinated approach to addressing resilience needs.

Furthermore, integrating new requirements through existing mechanisms allows for a smoother transition and better alignment with the overall regulatory objectives. The synergy between existing

¹ Boston Consulting Group, 'The Future is Electric', October 2022, <https://www.bcg.com/publications/2022/climate-change-in-new-zealand#>

regulations and any new resilience-focused measures fosters a cohesive approach, minimising any potential conflicts or ambiguities that may arise from disparate regulatory processes.

Beware of enforceable minimum resilience standards

Increasing the security of supply in the electricity sector is commendable and already incentivised through electricity-specific regulations. These regulations are designed to ensure that infrastructure owners take proactive measures to enhance the reliability and resilience of their systems.

ERANZ's concern is if the government establishes arbitrary enforceable minimum resilience standards. While the intent may be to improve the sector's resilience further, ERANZ worries that rigid and arbitrary standards could have unintended consequences. Infrastructure owners may find themselves compelled to make significant investments to comply with these standards, even if the benefits to consumers and the real-world impact are limited.

Events like Cyclone Gabrielle generate unpredictable impacts. Natural disasters can cause damage in unforeseen places and result in complex challenges for infrastructure owners. If the government enforces punitive measures following such events, infrastructure owners may feel pressured to overinvest in bolstering their systems. However, such overinvestment may yield only marginal benefits experienced by a small fraction of consumers, yet the costs are distributed among all consumers, leading to higher electricity prices.

It is crucial to strike a balance between setting reasonable resilience standards that genuinely enhance the sector's ability to withstand disruptions and avoid imposing arbitrary requirements that could burden infrastructure owners without providing significant value to consumers. A more pragmatic approach might involve fostering cooperation between the government, regulators, and infrastructure owners to develop flexible and adaptive resilience strategies that can respond to evolving risks.

By acknowledging the inherent unpredictability of weather events and adopting a risk-based approach to resilience, infrastructure owners can prioritise their investments and allocate resources more efficiently. Additionally, encouraging research and development in innovative technologies can lead to cost-effective solutions that significantly improve the sector's resilience without placing undue financial strain on infrastructure owners or consumers.

Managing national security and cyber risks is welcome

Enhancing information sharing by the government regarding national security and cyber risks is a highly beneficial and critical step in safeguarding our infrastructure from potential threats. By providing comprehensive and detailed insights into potential risks and vulnerabilities, the government can facilitate targeted and effective improvements in infrastructure security measures. As the holder of intelligence resources and expertise, only the government possesses the unique ability to identify and assess risks that may elude private entities and individual owners.

The government's intelligence capabilities allows them to prioritise and triage potential threats, ensuring that urgent and high-priority vulnerabilities receive prompt attention and necessary actions. Consequently, such concerted efforts by the government foster a more secure and resilient environment. The goal would be to establish a two-way relationship between the public and private sectors, promoting the flow of information and enabling joint initiatives to counteract emerging cyber challenges.

Conclusion

ERANZ would like to thank the Department for its ongoing efforts to improve the resilience of New Zealand's infrastructure. We are happy to provide any further information on this submission as required.

ERANZ looks forward to engaging with officials further as the government progresses with its critical infrastructure work programme.

Yours sincerely

A handwritten signature in black ink, appearing to be 'K. Clark', with a long, sweeping horizontal stroke extending to the right.

Kenny Clark
Policy Consultant