

Government Policy Statement—Resilience of Electricity Services in the Wellington Region

Pursuant to section 26 of the Commerce Act 1986, I hereby give to the Commerce Commission the following statement of the economic policy of the Government in relation to the resilience of certain lifeline utility services provided by suppliers of regulated services under Part 4 of the Commerce Act 1986.

Background

1. Lifeline utilities are entities that are named or described in Part A of Schedule 1 or that carry on a business described in Part B of Schedule 1 of the Civil Defence Emergency Management Act 2002 (“CDEM Act”). Lifeline utilities are entities that provide essential infrastructure services to the community such as water, wastewater, transport, energy and telecommunications. These services support communities, enable business, and underpin the provision of public services and economic activity.
2. Lifeline utilities are responsible for their own risk reduction, readiness, response and recovery arrangements. The CDEM Act imposes a specific duty on lifeline utilities to ensure they are able to function to the fullest extent possible, even though this may be at a reduced level, during and after an emergency. The National CDEM Plan Order 2015 elaborates on this duty.
3. Among other things, lifeline utilities are expected to respond to any material change in hazard information (such as changes in the hazard environment or new information regarding risks and vulnerability). They must review their business continuity plans and undertake appropriate actions to reduce the risks they face in light of any change in hazard information.
4. Some lifeline utility services are subject to price-quality regulation under Part 4 of the Commerce Act 1986 (“Commerce Act”), which conditions how they respond to new hazard information. A regulated lifeline utility may identify prudent resilience measures, in response to new hazard information, involving material costs that were not anticipated when a price-quality path determination was made under section 52P of the Commerce Act. Before undertaking such measures, a lifeline utility may consider applying for a new or amended section 52P determination providing for it to recover the unanticipated resilience costs by raising prices for relevant services.
5. After the Hurunui and Kaikōura earthquakes on 14 November 2016, GNS Science issued updated information about the probability and severity of aftershocks in the areas surrounding the faults that ruptured. The probability of a large earthquake or tsunami in Wellington increased as a result of the Hurunui and Kaikōura earthquakes and is expected to reduce from that elevated level over time.
6. Wellington is New Zealand’s second largest metropolitan area and houses most of central government. The Wellington region faces seismic risks due to the combination of active faults, steep terrain, potential liquefaction zones, and vulnerable transport routes and other infrastructure. A large proportion of nationally significant functions, including the functioning of central government, could be severely disrupted following a major seismic event. The resilience of Wellington’s lifeline utility services is a critical part of the region’s broader disaster resilience and contribution to the national economy.
7. Electricity services, in particular, are essential to the normal functioning of businesses and households. During disaster response and recovery phases electricity is especially important for telecommunications, pumping of water and fuel, and numerous other critical needs. It is therefore a priority to restore electricity services to critical sites, and ultimately to the entire affected region, as quickly as possible following an emergency event.

Government Policy Statement

1. It is Government policy that lifeline utilities that are regulated under Part 4 of the Commerce Act should be able to recover reasonable costs arising from their duties under the CDEM Act, including costs arising from actions taken in response to new hazard information, to the extent allowed by law. The ability to recover

prudent resilience costs promotes the purpose of the CDEM Act and the purpose of Part 4 of the Commerce Act.

2. It is Government economic policy that the national significance of Wellington's disaster resilience is given due consideration by lifeline utilities and by the Commerce Commission when performing its functions under Part 4 of the Commerce Act. In particular, the Government expects the Commerce Commission to consider options that are consistent with the purpose of Part 4 of the Commerce Act, which will, in respect of regulated suppliers of electricity services in the Wellington region:
 - a. allow those suppliers to recover prudent, efficient and timely resilience related expenditure that was not anticipated when existing determinations were made by the Commerce Commission under section 52P of the Commerce Act, where doing so is necessary to enable the supplier to improve the disaster resilience of its services;
 - b. provide certainty to those suppliers in relation to how any additional prudent, efficient and timely resilience-related expenditure may be recovered, where relevant amendments to a determination made under section 52P of the Commerce Act or a new determination may not be made in advance of that expenditure being incurred; and
 - c. allow the Commerce Commission to consider amending requirements that might normally apply to those suppliers relating to information, verification, or consultation on proposed expenditure.

Issued at Wellington this 18th day of September 2017.

HON JACQUI DEAN, Minister of Commerce and Consumer Affairs.

2017-go4910
