

26 January 2024

Commerce Commission
PO Box 2351
Wellington 6140
Via email to infrastructure.regulation@comcom.govt.nz

Dear Ben,

Electricity Networks Aotearoa (ENA) appreciates the opportunity to make this cross-submission on the *Default price-quality paths (DPP) for electricity distribution businesses from 1 April 2025; Issues paper*.

ENA is the industry membership body that represents the 27 electricity distribution businesses (EDBs) that take power from the national grid and deliver it to homes and businesses. ENA harnesses members' collective expertise to promote safe, reliable and affordable power for our members' customers.

ENA supports the views expressed by its members in their submissions. However, for brevity and due to the short cross-submission timeframe, ENA has not commented on these views.

Workshops and stakeholder engagement with the DPP process

The 40 responses to the DPP issues paper demonstrate that there is strong stakeholder engagement and interest in the DPP process from across the sector and beyond.

ENA strongly supports the calls from a range of stakeholders for in-person workshops to discuss key topics for the DPP. These submitters and the issues they suggested include:

- ERANZ (undue financial hardship and price shocks to customers)
- Mercury (undue financial hardship to EDBs and price shocks to customers)
- Meridian Energy (customer welfare issues)
- IEAG (poor or non-performance of a non-network/traditional solution)

Subsidising customers is a decision for government policymakers

ENA agrees with submitters including ERANZ, Infrastructure New Zealand, Meridian and MEUG, that interventions to manage distributional impacts of price increases and initiatives to help address any increased customers hardship should be separately designed and implemented by the appropriate government policy agencies. ENA also agrees that the fundamental market and regulatory frameworks that underpin the New Zealand (NZ) electricity sector are sound.

ENA agrees with ERANZ's view that a concerted communications effort from the Commerce Commission (the Commission), along with other government agencies, will contribute towards greater customer understanding, and therefore preparation, for the coming price impacts.

ENA strongly disagrees with Contact Energy's view that the current 10%+CPI limit on total revenue is a lenient estimate of a price shock. Capping EDB's revenues to avoid near-term price increases simply delays the recovery of the cost. Delaying cost recovery may result in inefficient capital rationing and

under-investment to the long-term detriment of customers and the achievement of New Zealand's decarbonisation goals.

Financeability

ENA supports Contact Energy and its members' view that financeability needs to be addressed via the DPP and a financeability test should be undertaken and published as part of the draft and final decision. A DPP with more dynamic flexibility and permissive investment will support New Zealand's economic and decarbonisation goals.

ENA supports Infrastructure New Zealand's view on the need to create a more permissive investment environment for EDBs.

Opex

Innovation

ENA's view is that EDBs investment in innovation and flexibility is, at present, caught in what the FlexForum accurately describes as a 'costs now and benefits later' paradigm.

The FlexForum view that distributors will need more operating expenditure to invest in new functionality is supported by ENA.

Contact Energy's recommendation that innovation support should be provided by the government rather than via the DPP is partially supported by ENA. ENA's believes that a consistent, open, and contestable innovation fund similar to the Australian ARENA model would be of great benefit in promoting innovation, but it is not a panacea and should not preclude EDBs from funding innovation via the regulatory opex allowance.

ENA does not agree with Meridian's view that a 53ZD notice would be the best way for the Commission to build a better understanding of the barriers. Our view is that a workshop on improving the innovation allowance would be a better way of improving its operation and effectiveness.

Step changes

ENA agrees with the FlexForum that setting the bar too high and making the step change process too difficult to achieve will reinforce the existing capex bias and discourage distributors from using flexibility. This in turn will slow down electrification and uptake of distributed flexibility by households, businesses, and communities. In addition, the step change process should recognise the transition involves uncertainty.

ENA's view is that the Commission should adopt and publish a formal process for the determination of step changes between DPP3 and DPP4. Given that step opex changes are an industry-wide issue, ENA is well placed to lead this work with the Commission and offers its services to coordinate the quantification of EDB step changes.

ENA notes that IEGA members' and Transpower's experience with higher and increasing insurance charges mirrors EDBs' own experiences. ENA agrees that NZ insurance seekers have some influence over these costs. However, the overall risks are assessed in an international market and NZ is a price-taker.

Trend

ENA agrees with Transpower's view that there is an implicit correlation between capex and network opex. This is linked to organisations' respective practices around substitution and capitalisation policies. We note that the Commission's econometric modelling and work conducted for the ENA does not bear this

out statistically. ENA believes that this is an artefact of the limitations of the economic modelling rather than the absence of any real-world relationship.

Capex

Connection pricing and contributions

Capital contributions are an important tool to ensure that connectors pay the true cost of their connection and are not subsidised by existing users. ENA strongly disagrees with Drive Electric that EDBs' contributions policies are inefficient and a disincentive to connect.

ENA notes the views held by Infrastructure New Zealand and other submitters regarding the variation of approaches to connection charging and contributions. While there are a small number of approaches adopted by EDBs, these all aim to deliver the same goal which is to ensure that connectors pay an efficient cost-reflective price for their connection. ENA's view is that the status quo is not a barrier to decarbonisation.

The Electricity Authority (the Authority), which is responsible for the oversight of EDB pricing, has not provided clear guidance on what the most efficient and cost-reflective approach to contributions is. EDBs have in good faith endeavoured to tailor one of the three most common approaches to suit the needs of their customers and operating environment.

To provide connectors and the public readily available insights into EDB's approaches to connection charging and capital contributions, ENA has created an interactive map that provides access to a factsheet which details key information contained in the EDB connection policies. The interactive map can be [accessed here](#), and will formally be launched in the coming weeks.

ENA notes that several submitters have commented on EDB's approaches to capital contributions and called for the Commission to intervene. The Electricity Industry Act 2010 is unequivocal¹ in showing pricing methodologies are issues the Authority is responsible for. ENA's view is therefore the Commission should not circumvent and pre-empt the Authority's decision-making progress by intervening in connection pricing and EDBs approaches to capital contributions via the DPP.

ENA's view is echoed by MEUG which called for the Commission to clearly set out how the Authority's work in this space interacts with its DPP analysis and the draft and final decisions for 2025 – 2030.

Forecasting connection capex

ENA agrees with MEUG, that consumer connection capex is difficult to forecast and often driven by decarbonisation initiatives. Therefore, a new approach should be considered.

Further, the MEUG submission highlights a key challenge faced by EDBs in forecasting connection capex noting that "timeframes for business projects are driven by multiple factors (i.e. access to finance, availability of technology and workforce) and may not often be discussed with EDBs until closer to project implementation when the scale of investment and greater detail is known." This information asymmetry is just one of a raft of reasons why connection capex must be excluded from the IRIS and the subject of a specific flexibility mechanism within the DPP.

IEGA in its submission recommended that the Commission encourage an improved approach to connecting new generation as an alternative to network investment. ENA notes that the process for the connection of distributed generation is regulated directly by the Authority and should not form part of the DPP process.

¹ Electricity Industry Act, Subpart 3 section 32(4)(b)

Quality

ENA agrees with MEUG that given the significant infrastructure investment to be delivered by EDBs throughout DPP4, it is not prudent to require EDBs to also implement and report on new quality standards. The existing quality standards provide sufficient insight and will ensure EDBs remain focused on providing consumers with a reliable and secure supply of electricity.

The DPP is intended to be a low-cost, light-touch regime. Therefore ENA's view is that the IEGA suggestion that the Commission should measure EDB's quality at a singular asset level is not practical or suitable.

The Commission should accept Utilities Disputes Ltd's (UDL) offer to make complaints data available to the Commission for use in its DPP analysis. ENA believes that UDL is well-placed to provide evidence of the level of customer service delivered by EDBs. For example, contrary to the views expressed by some submitters about EDBs being barriers to new connections, in the past five years there have only been 33 complaints to UDL about new connections².

ENA views the calls for the inclusion of connection application and installation timeframes into the DPP quality framework as unachievable and unnecessary. This is noted in the ENAs' response to the various tranches of the Commission's information disclosure (ID) review. However, it is appropriate that connection measures be included in the IDs, but this can only occur after issues pertaining to the scope, definition and meaningfulness of such measures are fully addressed.

LV quality

FlexForum's view that the Commission should provide a clear signal that it expects and supports the investments necessary to have LV visibility is heartily supported by ENA. Consequently, ENA is not opposed to FlexForum's suggestion that reporting on LV quality occurs once EDBs have access to sufficient data and systems to effectively and accurately report LV data.

Other issues

ENA supports Drive Electric's view that CPPs are simply uneconomic for all but the largest EDBs, and that the DPP reopener rules and processes result in expensive and intense pieces of work for only small improvements.

ENA also supports MEUG's call by for the Commission to make the financial models underlying the DPP reset process available ahead of the draft determination.

Please don't hesitate to get in touch with ENA if you'd like to discuss our submission. Contact Keith Hutchinson ([REDACTED]) in the first instance.

Yours sincerely

[REDACTED]
Keith Hutchinson

Regulatory Manager

² https://comcom.govt.nz/data/assets/pdf_file/0016/282121/Utilities-Disputes-Limited-Submission-on-EDB-targeted-ID-review-process-and-issues-paper-20-April-2022.pdf p3