

10 June 2024

Ben Woodham
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Commerce Commission
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Sent via email: infrastructure.regulation@comcom.govt.nz

Dear Ben

Reconsideration of default price-quality path for Wellington Electricity Lines Limited 2024

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's (Commission's) draft decision paper "*Reconsideration of default price-quality path for Wellington Electricity Lines Limited 2024*"¹ published for consultation on 21 May 2024.
2. MEUG members have been consulted on the approach to this submission. Members may lodge separate submissions. This submission does not contain any confidential information and can be published on Commission's website unaltered.

Focus on establishing a robust process for price-quality path reopeners

3. It is critical that the Commission establish a robust, repeatable and timely process for considering re-openers to price-quality paths, given the potential impact these decisions can have on ongoing electricity charges facing New Zealand consumers.
4. Following the 2023 Input Methodologies review,² there is now a much greater range of re-opener provisions available to Electricity Distribution Businesses (EDBs) to deal with uncertainty. MEUG also notes that the Commission has signalled, as part of its draft decisions for DPP4,³ that "*EDBs have the opportunity to apply for an increase to their expenditure allowances during the [DPP] period through flexibility mechanisms, including reopeners and CPPs*". This appears to signal that the default price-path is not expected to manage much of the uncertainty facing the sector, and reopeners may become more common.

¹ https://comcom.govt.nz/_data/assets/pdf_file/0028/353278/8e16b380aee385351eef576c21c1a0aa8cfb7444.pdf

² As summarised in paragraph A17, *Context and summary of Final decisions: Part 4 Input Methodologies Review 2023*, Commerce Commission, 13 December 2023, https://comcom.govt.nz/_data/assets/pdf_file/0033/337677/Part-4-IM-Review-2023-Final-decision-Context-26-summary-paper-13-December-2023.pdf

³ Paragraph X24, *Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision: Reasons paper*, Commerce Commission, 29 May 2024, https://comcom.govt.nz/_data/assets/pdf_file/0031/353983/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2025-Draft-reasons-paper-29-May-2024.pdf

5. This point is reinforced by the greater number of EDBs we observe putting in re-opener applications over recent months, with our understanding that alongside Wellington Electricity, the Commission is also considering applications from Unison and Aurora Energy.
6. MEUG considers that the availability of the re-opener mechanism alters the balance of risk within the Part 4 regulatory framework, further in favour of regulated businesses. EDBs currently receive a WACC set above the 50th percentile, which is intended to address the risk of underinvestment. We consider that the availability of re-openers now further reduces the risk of underinvestment by EDBs, while ensuring returns on any additional investment. Given this change, it is critical that any additional investments are robustly assessed and ascertained to be in the long-term benefit of consumers.
7. MEUG has carefully reviewed the criteria that the Commission has applied to Wellington Electricity's applications, given the precedent that these decisions will have on future re-opener applications. We expect that the Commission, alongside its role of assessing compliance with the legal criteria, must also take on the role of an "interested stakeholder". By this we mean, that the Commission must ask questions to test the drivers for an application, to seek evidence to test the assumptions made by the EDB and request further information where matters may not be clear to an "informed reader".
8. We appreciate that this scrutiny must be proportionate to the level of funding sought, as the use of re-openers is only one of the tools that the Commission has available to consider expenditure (DPP through to a full CPP or IPP). We also acknowledge that while the information considered in applications may be confidential in nature, it is essential that stakeholders have visibility of the process and can be confident that the Commission has carried out due diligence.

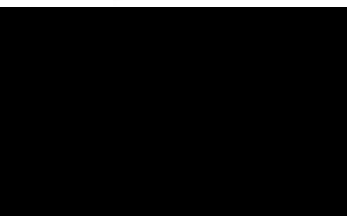
Comfortable with approved spend for Wellington Electricity

9. Regarding the applications put forward by Wellington Electricity, MEUG is reasonably comfortable that the Commission has applied the necessary scrutiny and confirmed that the applications have met the specified criteria for a reopener. The scrutiny applied is also proportional to the level of expenditure approved. We note that the staging of the works for the Weta FX project seems prudent and cost effective, given that the increase in demand for the broader Miramar area is expected from 2025 onwards (within the next regulatory period).

Next steps

10. If you have any questions regarding our submission, please contact MEUG on [REDACTED] or via email at [REDACTED].

Yours sincerely



Karen Boyes
Major Electricity Users' Group