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John McLaren  
Chief Advisor, Regulation Branch  
Commerce Commission  
P O Box 2351  
Wellington 6140

Emailed: [regulation.branch@comcom.govt.nz](mailto:regulation.branch@comcom.govt.nz)

Dear John

**Re: Cross- submission on the proposed default price-quality paths for electricity distributors from 1 April 2015**

Right House welcomes the opportunity to make this submission which is focused on the Commerce Commission (Commission) proposals in its paper 'Proposed default price-quality paths for electricity distributors from 1 April 2015' (published on 4 July 2014) in relation to implementing section 54Q of the Commerce Act.

Section 54Q requires the Commission to promote incentives and avoid imposing disincentives for energy efficiency related investment when setting the price paths for electricity distribution businesses (EDBs), including, if necessary, by amending input methodologies, in order to provide a framework that better incentivises such improvements.

Right House, as a business, is dedicated to providing a 'whole house' solution to energy-efficiency and is also New Zealand's largest installer of residential solar pv and as such is well positioned to comment on energy efficiency as it impacts on the individual user. We provide a background on Right House at the end of this submission.

Right House made a cross submission on 15 May 2014 on the Commission's issues and process paper when we supported the Commission implementing the requirements of section 54Q. Our previous submission is also relevant to the current consultation.

**Comments**

Right House submits that the proposal, as it stands, may allow EDB's to benefit from demand efficiency which results from consumer behaviour rather than EDB investment. Appliances are becoming more energy efficient and consumers are changing behaviours based on increased awareness and higher energy prices. This is leading to decreasing demand at ICPs. Any incentives for EDB's must discount these factors. If not the individual will be dis-incentivised and or the EDB will obtain the benefit of the reduction at the cost of the consumer.

Right House notes that, in general, falling network demand is leading to EDB's looking toward changing their tariff models toward greater fixed charges to ensure certainty of income. This does not promote the purpose of 54Q and it is symptomatic of the issue above of EDB's looking to retain revenues regardless of a changing environment.

Right House would submit that there must come a point when EDB's and the Commission will have to review the overall network revenue model as the fundamental nature of the EDB business is changing. EDB's cannot expect to continue to retain set revenues on their asset base when utilisation of that asset base is falling. In any other business the asset owner must react to the market in order to survive. With networks, where there is no competition, the tariff structure is adjusted to retain

revenue and, with the current proposal, the potential is that the EDB's will be able to claim the market's reductions as the outcome of their investment initiatives.

To alleviate the potential of consumers being dis-incentivised Right House submits that the Commission's proposal must allow whomever makes an investment to obtain the benefit of it, i.e. it should be indifferent as to the person that makes the investment and as such should include distributed generation (such as solar pv) and demand efficiency initiatives; in the same way that it is appropriate that EDB's invest in initiatives which encourage energy efficiency and that a regulatory regime includes a mechanism for the EDB to benefit from providing that initiative there should be a mechanism in the Commission's proposal for investment in renewable distributed generation or consumer demand based efficiency which offsets the need to invest in transmission and distribution infrastructure as this investment reduces the volume of electricity that has to be delivered across a network.

At the same time Right House has found that EDB's are increasingly looking toward changing their revenue models with consumers who install small scale distributed generation so as retain their required revenue at an ICP level. The risk is that any incentives for the individual will be lost in changes to tariff structures for the consumer. At the same time those who simply use less are not penalised as they, unlike a consumer with distributed generation, are not required to declare their method of reducing network demand to the EDB.

Right House is also concerned that an EDB will have significantly more knowledge about the impact on their network, and therefore the potential benefits energy efficiency or investment in distributed generation will have, in their network or a particular part of it than any third party. This raises issues about whether the EDB should be required to fairly share information and the benefits of this type of investment which reduces operating and capital investment fairly with other investors. Right House submits any proposal should take this into account along with ensuring EDB's are not in a position to crowd out activities by third parties in what is, or should be, a competitive part of the electricity system.

The Commission's proposal may require the EDB to contract with a third party for these initiatives to ensure the resulting reduction in volumes can be taken into account in the 'd' factor. It is important that:

- this contracting arrangement, and the Commission's approval process, does not inhibit investment by third parties; and
- the benefit for the EDB (in deferred / lower investment) created by these initiatives must be passed on to that third party.

The proposed 'd' factor allows EDB's to increase its prices on the remaining volumes in order to achieve its allowed rate of return. The resulting prices and price structures should be consistent with the overall objective to promote incentives and avoid imposing disincentives for energy efficiency related investment. For example, an increase in fixed charges provides no incentive or signal to electricity consumers that they can benefit if they reduce their consumption and noting that the overall objective for this regulatory regime is to achieve long term benefits for the consumer.

We note ENA's conclusions that supply and demand efficiency initiatives may defer the need to expand network capacity for a period of time, in some cases can eliminate the need for traditional investment altogether or remove the need to renew existing assets.

While considering energy efficiency or demand side management initiatives proposed by EDBs the Commission should also take into account the resulting lower operating and capital costs in determining the EDBs overall weighted average price.

## Next steps

We note there have been a significant volume of submissions on this topic and suggest the Commission undertake a further round of consultation if there are changes to the proposals in the 4 and 18 July consultation papers.

I would welcome the opportunity to discuss this submission with you in more detail.

Yours sincerely,



Mel Orange  
General Counsel  
Right House Limited  
Phone 03 420 1537  
Mobile 021 512 537  
Email [mel.orange@righthouse.co.nz](mailto:mel.orange@righthouse.co.nz)

## Background on Right House

Right House is a full solution company providing energy efficient solutions through a nationwide network of branches. Specialising in insulation, energy efficient heating systems and Photovoltaic systems Right House delivers to both the retrofit and new build markets. Right House is one of the largest insulation installation companies in New Zealand and installs more photovoltaic systems and installed megawatts than any other provider in New Zealand installing up 100 to 150 systems per month on NZ homes and farms.

Right House is a wholly owned subsidiary of the Mark Group in the United Kingdom. The Mark Group is an international company, with over 1,500 employees in 6 countries, which is dedicated to providing a 'whole house' solution to energy-efficiency. Founded in 1974, Mark Group has already helped to make more than two million homes more energy-efficient, currently installing around 8,000 insulation measures every week. Mark Group is installing over three megawatts of micro Solar PV throughout the world every month.

