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Default price-quality paths for electricity distribution businesses from 1 April 2025

Issues paper – Cross
Submission



1 Submission and contact details

Consultation	Default Price-Quality Path Issues Paper – cross-submission
Submitted to	Commerce Commission
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2 Confidential information

Nothing in this submission is confidential and Wellington Electricity Lines Limited is comfortable for this cross-submission to be published in its entirety.

3 Introduction

Wellington Electricity Lines Limited (**WELL**) appreciate the opportunity to make a cross-submission in response to submissions to the Commerce Commission’s (**Commission**) Default Price-Quality Path Issues Paper (**The Paper**). We are reassured by the aligned views of the respondents to The Paper. All submissions highlighted the importance of the DPP providing additional allowances to EDBs investing in new capacity to meet the expected decarbonisation-related demand increase. Submitters recognised the role distribution services will play in New Zealand electrification and the importance of building new capacity before demand eventuates. Submissions highlighted the high risk of underinvesting and the essential role the Default Price Path (DPP) will have in ensuring allowances are available when they are needed.

The large number of submissions highlights the important role the next price path will have on New Zealand’s decarbonisation. The number of submissions increased from 28 provided to the DPP3 issues paper, to 40 provided to the DPP4 Issues paper. Contributions ranged from a variety of businesses; from EDBs, retailers, and generators, to industry, and consumer bodies. The high participation from a

wide range of entities highlights the important role the Default Price-Quality Path (DPP) has in delivering New Zealand's Emissions Reductions Plan.

3.1 Affordability

We agree with Meridian¹, Energy Retailers NZ² and MEUG³ that the Commission will need to support the DPP reset with context about the forecast cost increase. As highlighted in Powerco's submission, *Appendix 4: PWC Revenue Modelling Report*⁴, nearly all the expected price increases are due to increasing inflation⁵ and the increase reflects the mechanical operation of the building blocks calculation. Customers must be aware that the price change reflects the move from a low inflationary DPP3 period and that the high prices are not a reflection of inefficient distribution services. We must provide customers with comfort that the regulatory model is economically sound and that while prices may fluctuate in the short term, long-term outcomes are consistent with those produced in competitive markets⁶.

High prices will also be industry and countrywide with Transpower prices set to increase, spot market prices predicted to become more volatile as we move to intermittent renewable generation and other infrastructure assets (like water) also needing to increase their investment. We must demonstrate that we are providing efficient and reliable services so that customers and the wider government support the investment we must make to meet increasing demand.

Price Smoothing

We think it is important to price smooth to allow customers time to adjust their energy use and to rearrange their budgets. However, we think submissions provide some important context of how price smoothing should be applied to ensure long-term prices are not impacted.

¹ Meridian Energy, 2023. *DPP4 issues paper submission*, page 2. Available at https://comcom.govt.nz/_data/assets/pdf_file/0036/339768/Meridian-Energy-Ltd-DPP4-issues-paper-submission-15-December-2023.pdf

² ERANZ, 2023. *DPP4 issues paper submission*, page 2. Available at https://comcom.govt.nz/_data/assets/pdf_file/0029/339752/Electricity-Retailers-Association-of-New-Zealand-ERANZ-DPP4-issues-paper-15-December-2023.pdf

³ MEUG, 2023. *DPP4 issue paper submission*.

⁴ Powerco, 2023. *DPP4 issues paper submission 19 December 2023*. Page 62 Available at https://comcom.govt.nz/_data/assets/pdf_file/0030/339771/PowerCo-DPP4-issues-paper-submission-19-December-2023.pdf

⁵ Either explicitly through increasing opex and capex and RAB revaluation, or implicitly through increasing WACC.

⁶ As per Part 4 of the Commerce Act.

We agree with Energy Retailers Association New Zealand (ERANZ)⁷, and Infrastructure NZ⁸ that it is the Government's role to manage social welfare in New Zealand and to assist those in energy hardship. Care must be taken to ensure that any price smoothing does not become a pseudo-social welfare response at the expense of cost efficiency. Any price smoothing must be applied within the underlying economic principles that underpin the regulatory model.

We agree with Contact Energy's submission⁹ point that financeability needs to be addressed in the DPP and note that price smoothing has the potential to create significant financeability issues as noted in our IM Review submission¹⁰. It will be important to test the impact of price smoothing on financeability and to ensure EDBs are appropriately funded for any additional lending costs they may incur by delaying the recovery of regulatory income. As highlighted by Contact Energy, efficient long-term prices depend on EDBs being incentivised to invest in their networks. EDBs and new investors will not invest if regulatory mechanisms, like price smoothing, create additional funding costs that are not covered in allowances and the price path is set at a level that a network cannot earn a real return.

Powerco's submission¹¹ highlights the importance of selecting price smoothing limits that allow an EDB to clear their washup account and maintain financeability and financial capital maintenance requirements. As highlighted by Powerco, selecting an arbitrary 10% smoothing limit will not achieve this. For this reason, we also disagree with using the approach proposed by Contact (using the point at which customers switch as an affordability metric and input for setting the smoothing rate)¹². Our own issues paper and IM Review¹³ submissions with Frontier Economics¹⁴ explore this issue further.

⁷ ERANZ, 2023. *DPP4 issues paper submission*. Page 1.

⁸ Infrastructure NZ, 2023. *DPP4 issues paper submission*. Page 4, Paragraph 20. Available at https://comcom.govt.nz/_data/assets/pdf_file/0037/339796/Infrastructure-New-Zealand-INZ-DPP4-issues-paper-submission-15-December-2023.pdf

⁹ Contact Energy, 2023. *DPP4 issues paper submission*. Page 1 Available at https://comcom.govt.nz/_data/assets/pdf_file/0028/339760/Contact-Energy-DPP4-issues-paper-submission-15-December-2023.pdf

¹⁰ Wellington Electricity, 2023. *IM Review 2023 Draft Decision submission*. Available at https://comcom.govt.nz/_data/assets/pdf_file/0021/323175/Wellington-Electricity-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf

¹¹ Powerco, 2023. *DPP4 issues paper submission*. Appendix 4 PWC Revenue Modelling Report page 8.

¹² Contact Energy, 2023. *DPP4 issues paper submission*. Page 2

¹³ Wellington Electricity, 2023. *IM Review Draft Decision 2023*. Page 10

¹⁴ Frontier Economics, 2023. *A review of the limit on EDB price increases*, Page 27. Available at https://comcom.govt.nz/_data/assets/pdf_file/0015/323106/27Big-627-EDBs-Frontier-Economics_-_A-review-of-the-limit-on-EDB-price-increases-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf

3.2 Investing in decarbonisation

Infrastructure NZ¹⁵, MEUG¹⁶ and Mercury¹⁷ support the need to build the new capacity and capability to allow the electrification of transportation, space heating, and process heat. To enable decarbonization EDBs will need to be provided with new allowances. Mercury said “The electricity sector will need to make significant investments in the coming decades, starting with an estimated \$42bn through to 2030. The Government can create the conditions that best leverage this investment by removing the barriers to supply-side investment in new renewable generation, transmission, and distribution, and ensure that policy actively supports demand side changes”.

We agree with Mercury that networks will need to invest now so that we do not become the constraint to electrification. If DPP allowances are insufficient while the rest of the industry advances, investment in new generation and transmission will be stranded until the allowances are available and we can build new capacity to deliver the new electricity supply. Of the many submissions, none are concerned about investing and upgrading network capacity too early to manage the Government’s net-zero targets. As highlighted in Drive Electric’s submission¹⁸, ensuring we can meet demand increases will be more efficient and least cost in the long run. The danger of investing too early is very small compared to investing too late.

We also note that even if EDBs are provided with new allowances in the DPP4 regulatory period, they will need time to scale up their delivery capability. There will still be a risk that demand will increase faster than the time it takes to award new allowances and build new capacity. In the case of non-traditional flexibility solutions, a wide range of other supporting regulatory changes are also needed in addition to new regulatory allowances before flexibility services are available at the scale needed to provide viable alternatives to traditional solutions¹⁹. Ensuring EDBs have the allowances needed to develop flexibility and build new capacity is an essential component to ensuring EDBs can maintain

¹⁵ Infrastructure NZ, 2023. *DPP4 issues paper submission*. Page 3. Paragraph 15

¹⁶ MEUG, 2023. *DPP4 issues paper submission*. Page 3 Paragraph 13.

¹⁷ Mercury Energy, 2023. *DPP4 issues paper submission*. Page 2. Available at https://comcom.govt.nz/_data/assets/pdf_file/0035/339767/Mercury-DPP4-issues-paper-submission-19-December-2023.pdf

¹⁸ Drive Electric, 2023. *DPP4 issues paper submission*. Page 7. Paragraph 35. Available at https://comcom.govt.nz/_data/assets/pdf_file/0030/339762/Drive-Electric-DPP4-issues-paper-submission-19-December-2023.pdf

¹⁹ As highlighted in the EV Connect Roadmap <https://www.welectricity.co.nz/major-projects/ev-connect/> and the FlexForum Flexibility Plan 1.0 <https://www.araake.co.nz/assets/Uploads/FlexForum-Flexibility-Plan-1.0-31-August-2022.pdf>

network quality. However, the provision of new allowances alone is not a guarantee of a secure electricity supply.

3.3 Customer expectations and reliance on electricity

There are growing expectations for more EDB interaction with customers as:

- Network constraints and disruptions move closer to the ICP level.
- Customers become more reliant on electricity as transport and potentially gas use is electrified.

We agree that customers will need to become more involved in deciding what level of service they want and their preferences for new technologies²⁰. The current low-cost DPP regulatory framework assumes that the Commission sets quality standards on behalf of EDBs and is therefore responsible for customer consultation.

Currently, we are not funded to consult directly with consumers about service level preferences as assumed by MEUG²¹. If this responsibility were to shift to EDBs, then we would need a cost step change to fund this new capacity.

3.4 Quality

We agree with MEUG that given the significant investment required, there should be no further quality measures and allow EDBs to focus on delivery.

We disagree with IEGA's submission²², that EDBs should apply the quality standards at a single ICP level rather than aggregated across all ICPs. This is a step change in quality and would require significant investment to ensure all connections were built to a standard to deliver the overall network average.

²⁰ Consumer Advocacy, 2023. *DPP4 issues paper submission*. Available at https://comcom.govt.nz/_data/assets/pdf_file/0036/339759/Consumer-Advocacy-Council-DPP4-Issues-paper-submission-19-December-2023.pdf

²¹ MEUG, 2023. *DPP4 issues paper submission*.

²² Independent Electricity Generators Association, 2023. *DPP4 issues paper submission*. Page 4 Available at https://comcom.govt.nz/_data/assets/pdf_file/0036/339795/Independent-Electricity-Generators-Association-IEGA-NZ-DPP4-issues-paper-submission-19-December-2023.pdf

We agree with Orion²³ and Unison²⁴ that the existing quality targets may need to be lowered for networks building new capacity or for successful trials of non-traditional solutions. This includes planned SAIDI/SAIFI to reflect the increasing work programme and unplanned SAIDI/SAIFI if demand is increasing faster than a network can practically build new capacity.

Reflecting rapid EV uptake in quality measures

We agree with Unison Networks that where there are expenditure constraints there should also be additional exceptions in quality to reflect they have not been provided the allowances to meet demand shortfalls or replace aging equipment.

We think quality exceptions may also be applied to networks where it is not practically possible to build fast enough to keep up with demand increases. The rapid decarbonisation-related demand increase and limited delivery resources in New Zealand, may mean that networks cannot build new capacity fast enough to maintain current quality levels.

Connection process

We disagree with Drive Electric's call²⁵ for more consistency in connection standards and that quality standards should cover connection applications and installation timeframes. The connection process is complicated, and many factors are outside of an EDBs control. There is also no historical data to base performance measures on.

We do agree that the connection process is an important focus area for consumers and note the current Information Disclosure review is considering how to measure the connection processes.

²³ Orion Networks, 2023. *DPP4 issues paper*. Page 19 Available at https://comcom.govt.nz/_data/assets/pdf_file/0029/339770/Orion-New-Zealand-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf

²⁴ Unison Network, 2023. *DPP4 issues paper submission*. Page 19. Available at https://comcom.govt.nz/_data/assets/pdf_file/0036/339777/Unison-Networks-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf

²⁵ Drive Electricity, 2023. *DPP4 issues paper submission*. Page 7. Paragraph 36

3.5 Flexibility

Most EDBs, Solar Zero²⁶, Consumer Advocacy²⁷, FlexForum²⁸, MEUG²⁹ and IEGA³⁰ submissions comment on the importance of demand-side management and flexibility services and the need for the DPP to provide allowances for EDBs to incorporate flexibility services into their asset management planning. Consumer Advocacy said that EDBs need to have the right incentives to look beyond capital investment. The Independent Electricity Generators Association (IEGA) said that greater incentives for demand-side management are required that collaborates with retailers to support customer behaviour changes.

As noted in the FlexForum submission, EDBs traditionally have minimal visibility of their low voltage (LV) networks, and they will require allowances to develop and operate LV management tools that will provide visibility of LV constraints and incorporate and monitor flexibility services. As summarised in our submission to the Paper, this includes allowances to purchase smart meter data, LV management software and staff to manage the new functionality.

This is a new function that would require an opex step change. As Solar Zero highlights in their submission³¹, past expenditure is not a good starting point for considering future costs of adopting new and better technologies. We consider a major technological step change needed to operate non-traditional solutions and the ability to incorporate flexibility services is dependent on a step change in opex allowances.

We also note that allowances to develop and incorporate flexibility services into an EDBs demand management response is just one of the many actions needed before flexibility services can be offered at the scale required to provide a viable alternative to building traditional capacity. Our EV Connect Roadmap³² and the FlexForum's Flexibility Plan 1.0³³ provide these actions. While the provision of new allowances is an important flexibility action, it is one of many actions which need to be completed before flexibility becomes an effective demand response. We note that while some actions are

²⁶ Solar Zero, 2023. *DPP4 Issues Paper Submission*. Page 11. Available at https://comcom.govt.nz/_data/assets/pdf_file/0032/339773/Solar-Zero-DPP4-issues-paper-submission-15-December-2023.pdf

²⁷ Consumer Advocacy, 2023. *DPP4 issues paper submission*. Page 2 paragraph 10 & 13.

²⁸ FlexForum, 2023. *DPP4 issues paper submission*. Page 8. Available at https://comcom.govt.nz/_data/assets/pdf_file/0032/339755/FlexForum-DPP4-issues-paper-submission-19-December-2023.pdf

²⁹ MEUG, 2023. *DPP4 Issues Submission*. Page 5. Paragraph 21.4

³⁰ Infrastructure NZ, 2023. *DPP4 issues paper submission*. Page 3, Paragraph 10.

³¹ Solar Zero, 2023. *DPP4 issues paper submission*, page.4.

³² <https://www.welectricity.co.nz/major-projects/ev-connect/>

³³ <https://www.araake.co.nz/assets/Uploads/FlexForum-Flexibility-Plan-1.0-31-August-2022.pdf>

progressing (for example, access to smart meter data is improving) other actions like setting EV charging standards and rules around connecting very large appliances, have not happened.

While price and/or market-led flexibility services are being developed, and if demand increases faster than new capacity can be built, EDBs may have to apply standard flexibility mechanisms which limit electricity use to the network's available capacity. A network may have to publish operating envelopes reflecting the network's available capacity and work with flexibility providers to encourage consumer behaviour to remain within the network operating limits. This approach has been applied in South Australia where solar customers with controllable devices, whose operation can be directly managed within the network's safe operating limits, are allowed to connect to the network. Uncontrolled devices can also connect but under very restricted operating limits.

3.6 Innovation allowance

We note and agree with Meridian³⁴, MEUG³⁵, Solar NZ³⁶ and the FlexForum's concerns about current innovation incentives. Meridian and MEUG's submissions highlight the low utilization of the innovation mechanism and that the mechanism has not functioned in the way intended.

The FlexForum highlights that EDBs are required to fund 50% of an innovation project and that they may not be able to recoup the benefits of the project within the regulatory period. They suggest using the innovation mechanisms to provide allowances to purchase flexibility in the absence of the IRIS allowing opex and capex allowances to be substituted across regulatory periods. FlexForum also suggests removing the quality standards for flexibility trials until a mature flexibility market is established. The innovation allowance needs to be specific and in the absence of IRIS penalties to purchase flexibility.

³⁴ Meridian Energy, 2023. *DPP4 issues paper submission*. Page 3.

³⁵ MEUG, 2023. *DPP4 Issues Submission*. Page 5. Paragraph 21.4

³⁶ Solar Zero, 2023. *DPP4 issues paper submission*. Page 3