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ERANZ SUBMISSION ON EDB DPP4 DRAFT DECISION

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Commerce Commission's 'Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision' paper from May 2024.

ERANZ is the industry association representing companies that sell electricity to Kiwi households and businesses. Collectively, our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

Introduction

As key industry participants, ERANZ members understand distributors' critical role in ensuring a reliable and secure electricity supply to consumers.

ERANZ and our members support the Commerce Commission's role in the regime to set price-quality regulations. The Commission's draft decisions paper sets out the work that distributors and the Commission have completed to examine the position of non-exempt EDBs, and we thank those organisations for their work.

The communication of this draft decision paper was greatly appreciated, and the time taken by the Commission to summarise the overall theme of its work and its direct financial impact on consumers built trust. ERANZ encourages the Commission to similarly prepare for the publication of the final decision paper in November.

Current situation and context

Electricity retailers recognise the importance of the infrastructure that distributors build, maintain, and finance. These assets are essential for delivering electricity that powers New Zealand homes, businesses, and communities.

New Zealand is currently experiencing a period of high inflation and high interest rates. These economic conditions present distributors' challenges, impacting their cost of capital and other input costs. ERANZ acknowledges these factors are reflected in the Commerce Commission's methodology for setting the DPP4. The regulatory framework must remain responsive to changing

macroeconomic influences to support the sustainability and resilience of our electricity distribution networks.

There are always trade-offs to balancing the financial realities faced by distributors and the need for affordable and reliable electricity for consumers. The Commission has transparently set out its draft decision and clearly articulated to the public the financial impacts.

Priorities for ERANZ

As the Commission works towards its final decision paper for November, ERANZ has two priorities for the Commission's consideration:

1. We need to smooth the price impact on end consumers as much as possible
2. Need to ensure distributor's asset management plans are the right size.

One of the core priorities for ERANZ is the need to smooth the price impact on end consumers as much as possible, particularly residential consumers or households. Historically, retail electricity prices have performed very well. MBIE's latest electricity pricing data for the March 2024 quarter shows a one percent increase in real terms of the average household electricity bill over the last twelve months. To put the rise in context, the average household electricity bill went down eleven percent in real terms over the previous decade.

However, ensuring that electricity continues to remain affordable for households is critical right now because of the broader financial pressures households are facing from cost-of-living increases. It is essential the Commission prioritises these financial challenges in forming its final decisions paper to prevent exacerbating the financial burden on consumers.

To achieve this, ERANZ supports trade-offs that help mitigate price volatility. Smoothed pricing, even greater than currently included in the draft decision paper, is crucial for enabling consumers to manage their budgets effectively. Sudden spikes in electricity prices can lead to significant hardship, especially for vulnerable consumers. Given the importance of electricity to each household's wellbeing, particularly through adequate heating, we need to avoid families choosing whether or not to consume.

Smoothing the price impact on consumers requires a balanced approach considering both short-term and long-term perspectives. While immediate relief from price increases is necessary, it is equally essential to ensure distributors can sustainably finance and maintain their infrastructure. This balance is critical for the long-term security of the electricity network, providing reliable service and avoiding deferred costs that could lead to more significant price increases in the future.

Another of ERANZ's key priorities is ensuring that distributors' asset management plans are right-sized, meaning they are appropriately scaled and not excessively overbuilt. This principle is crucial to ensuring investments in infrastructure are efficient and cost-effective, avoiding unnecessary expenditure that would ultimately be passed on to consumers through higher prices.

Right-sizing asset management plans involves careful examination and prudent decision-making to match the actual needs of the network and the demand of consumers. Over-investment in infrastructure can lead to inflated costs at a time when sensitivity to retail prices is already acute. The Commission must use its oversight position to deeply examine projects so that only those offering value for money proceed and avoid those that do not have a justified cost-benefit ratio.

Ensuring right-sized asset management plans also supports a more sustainable and balanced approach to network development. By focusing on necessary and impactful investments,

distributors can maintain and improve their networks while maintaining the trust of their consumers. This approach helps maintain affordability while still achieving the overarching goal of a reliable and resilient electricity supply. ERANZ advocates for regulatory oversight that scrutinises asset management plans to prevent over-capitalisation and ensure efficiency in expenditure.

Technology

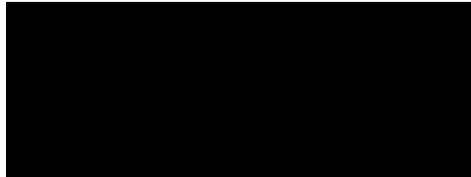
Focusing on efficiency and technology can help distributors meet some of their needs at a lower cost than infrastructure upgrades. Technology and innovation should extend to demand management and other services that the market is likely to provide.

Therefore, ERANZ supports the Commission's decision to introduce a capped innovation and non-traditional allowance. Testing and sharing ideas for greater efficiency across distributors is welcome. The distributor's core business operations must be the priority, so a small allowance that could prove ideas for wider take-up is proportionate and appropriate while maintaining safeguards against distributors competing in adjoining markets or using solely in-house designs.

Conclusion

ERANZ would like to thank the Commission for its continued work regulating New Zealand's transmission and distribution networks. ERANZ looks forward to engaging with officials on the content of this decisions paper and is happy to provide further information on this submission if needed.

Yours sincerely



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