

12 July 2024

To Ben Woodham, Electricity Distribution Manager, Commerce Commission

Submission: Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision

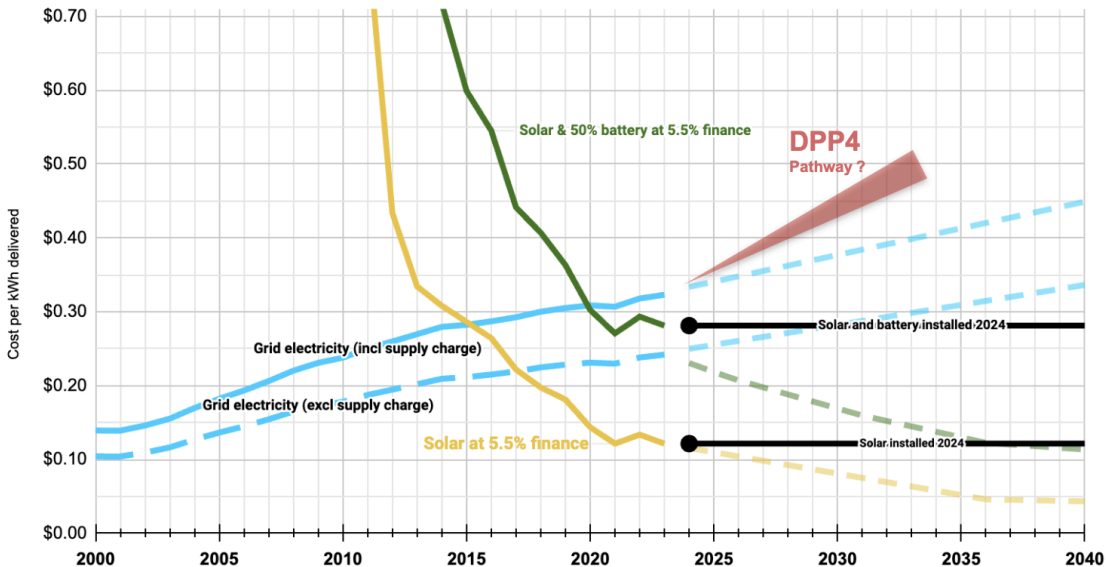
Rewiring Aotearoa is a non-partisan organisation with charitable status that has shown electrification has major economic and environmental benefits. Our mission is to rapidly reduce New Zealand’s emissions, improve affordability, and increase our resilience by electrifying the millions of small fossil fuel machines in our homes, communities, small businesses and on our farms.

This submission

A core characteristic of the future electricity system, one that strikes the best tradeoff between affordability, resilience and decarbonisation, is that households and businesses become part of the system infrastructure. The inevitable uptake of consumer or customer energy resources (CER) - i.e flexible demand, distributed rooftop solar and batteries, as illustrated in Figure 1 – will mean that households and businesses will provide reliable network and market services that perform similar functions to traditional electricity infrastructure (generation and networks). Our support of draft DPP4 decisions that recognise and better enable this future underpins this submission.

New Zealand delivered electricity cost per kWh over two decades.

Rewiring Aotearoa Analysis. StatsNZ Quarterly CPI History 2023. MBIE Energy Prices & OSDEP 2023. SEANZ 2023 Solar data. NREL forecast. Micah Ziegler and Jessika Trancik (2021) historic battery pricing and Our World in Data historic solar pricing adjusted to NZ prices.



Our submission does not repeat all elements of our previous submission. We have also chosen to stay away from the detail of EDB-specific decisions.

Key messages

On behalf of New Zealand households and SMEs, we remain interested in DPP4 decisions and the impact they will have on consumer bills and resilience.

As explored in Mike Casey's [The billion-dollar win for Kiwi power user](#), we welcome the approach the Commerce Commission (the Commission) has taken of not approving over \$1 billion in unnecessary increases and support the Commission holding firm on these decisions. We hope EDBs see this as an opportunity to embrace innovation, but if they start playing the line that the billion-and-a-bit dollar haircut threatens security of supply, it makes the case for more rooftop solar and batteries – and low-interest finance to fund it – even stronger.

However, we hesitate to “celebrate” an increase in distribution bills over the DPP4 period of around 75% or more as this will still have significant impacts on cost of living to New Zealanders. As can be seen from the graph above, the cost of rooftop solar is now significantly lower than grid electricity, with solar and batteries combined approaching cost-parity. Technologically, there is little reason for the electricity price for “NZ Inc” to be rising any faster than inflation, and it could be argued that it should actually be falling per unit through increases in network utilisation. A battery installed in a home or business can both reduce peak (lowering new asset/capacity requirements) and increase network utilisation (driving down the per unit cost of electricity because more electricity can flow along the same assets). The fact that bills are rising so steeply while solar and battery costs fall rapidly in the opposite direction is a worrying sign of the regulatory system not keeping up with technological innovation.

We recommend the Commission more strongly incentivise utilisation rather than asset growth. Efficiency is about maximising the use of existing assets so a top priority for the industry should be obtaining data to better understand the utilisation of the LV networks. As data is obtained, EDB spending should be adjusted (down or up).

A reliable electricity network is essential for modern life. However, looking at recent feedback in the media to anticipated grid electricity price increases, many New Zealanders do not feel like they're winning – or saving. It's about time the energy sector tried giving something back for a change, rather than just continuing to take. If not, the electricity sector risks losing its social licence. This could lead to some businesses and individuals further entrenching their fossil fuel use.

The draft decision has created a real opportunity for customer energy resources – things like rooftop solar, batteries and smart systems that can manage demand – to step in and play a bigger role in the system. Financed solar and batteries are already cheaper than grid electricity and basically lock in your electricity price for decades, as Rewiring Aotearoa's '[Electric Homes' report](#) shows, so it already makes economic sense. But some other dominoes need to fall to speed up adoption.

Detailed comments

Innovation and non-traditional solutions allowance (INTSA)

We support the various draft decisions that **further incentivise innovation and non-traditional solutions**. However we caution that much of what might be labelled “innovation” is already happening in other countries, and we would emphasise the need for accelerating *deployment* of innovative pricing and technology that has already been tested elsewhere in significant detail. After all, it is not the purpose of innovation to remain siloed into long-term example projects, it needs to be rolled out to consumers to lower their bills.

Much of this innovation is clearly identifiable and clearly deployable today with low risk, and we should ensure that as much of this innovation reaches New Zealanders in time for it to matter.

We also support the Commission's approach to implement a simple application and approval process for INTSA to ensure it is an attractive option for EDBs, while retaining adequate rigour and control.

We recommend the Commission include an opportunity for **consumers and consumer organisations to comment on INTSA proposals**, as an input to support the Commission's assessment of whether a proposal promotes the Part 4 purpose of the Act. We do not want EDBs to use INTSA on trophy projects that do not benefit their consumers, yet see consumers paying 100% of the project. For example, following process step D31.2 where the Commission is proposed to publish an EDB's proposal, a brief open submission period could be added.

If there is such an adequate opportunity for consumers and consumer organisations (such as Rewiring Aotearoa) to have a say in the process, we would support the **INTSA allowance increasing above 0.6% of DPP4 MAR**, though not necessarily as high as the 5% included in the "more ambitious option" as this would be an increase in bills (noting it would hopefully translate into a decrease in overall bill) that consumers would not have direct influence over. Regardless of what MAR % maximum permissible INSTA expenditure is set at, we support the share of project expenditure that is recoverable by EDBs not exceeding 100% of costs.

While we support the additional incentives for innovation, we are confident that many of the likely "innovations" are no longer theoretical or needing further testing. Legislative and regulatory change beyond the scope of DPP4 are needed to require deployment of such "innovations".

Re-openers

Every month that goes by without proper pricing being provided to customers will see more millions spent on network assets that may be, in hindsight, unnecessary.

While beyond the scope of DPP4, it is more important than ever that the Commission works with the Electricity Authority on distribution pricing, since it is the key mechanism via which all customers can 'negotiate' with EDBs about investment, and by which the full power of non-network alternative (batteries) can compete with monopoly assets.

We recommend proper cost reflective pricing (including Symmetrical Export Tariffs) should be a **prerequisite of any EDB's reopener being approved**.

Additional points

We understand an independent assessment commissioned by the Commerce Commission found that it's unclear if the revenue requested by EDBs (and therefore allowed by the Commission) is reasonable. The Commission should rethink the information disclosure required by EDBs (e.g. AMP disclosures).

The Commission has identified that deliverability is a major risk. We recommend the Commission, alongside final decisions, clearly explain to consumers what happens if EDBs underspend (ie bills will not rise as much as may be expected.).

Wider work of Rewiring Aotearoa

So far this year we have released the following reports and papers which are relevant in different ways to DPP4 and associated work:

- *Electric Homes*¹
- *Electric Farms*²
- *Symmetrical Export Tariffs*.

We intend to release further papers that will be relevant, on the following topics:

- Macroeconomic implications of electrification
- Delivered energy cost comparison
- Spatiotemporal energy system overbuild Model with Saturated consumer energy resources.

Thank you for this opportunity to submit. As always, we are happy to meet to discuss what we believe is needed to build the energy system New Zealanders need to power electric lives.

Regards

Rewiring Aotearoa - Policy and Research team

<https://www.rewiring.nz/>

¹ <https://www.rewiring.nz/electric-homes-report>

² <https://www.rewiring.nz/electric-farms>