

26 June 2024

Ben Woodham
Electricity distribution manager
Commerce Commission
PO Box 2351
Wellington 6140

By email: infrastructure.regulation@comcom.govt.nz

Submission on: *Default price-quality paths for electricity distribution businesses from 1 April 2025 – draft decision: reasons paper*

Introduction

1. Thank you for the opportunity to make a submission on this paper. This submission is from the Consumer Advocacy Council, the independent advocate for residential and small business electricity consumers in New Zealand.
2. In the time available to the Council to make a submission, we have focussed our comments on key issues of concern regarding lines companies' expenditure forecasts.
3. If you have any questions regarding our submission, please contact:
 - Maddie Bargh, principal advisor, Consumer Advocacy Council
 - Email: [REDACTED]
 - Phone: [REDACTED]or
 - Deborah Hart, chair, Consumer Advocacy Council
 - Email: [REDACTED]
 - Phone: [REDACTED]

General comments

4. The draft decision paper proposes a major increase in allowable revenue for electricity distribution businesses (EDBs) for the 2025-2030 period. The proposed increase is equivalent to a 50% rise in real terms compared with the previous five-year regulatory period.
5. The impact on consumers' bills will be significant, with the decision paper noting an initial rise of \$15 per month (ex GST) for households in the first year (2025-2026) and further increases in subsequent years. By the end of 2026, households will be paying an additional \$207, on average, just for the lines component of their power bills.

6. We recognise that expenditure on lines maintenance is essential to ensure a reliable electricity system. Investment in infrastructure is also required to respond to climate change and support the transition to renewable energy. We acknowledge the commission's consideration of these matters in its paper.
7. However, we are concerned that deficiencies in EDBs' planning and in the information underlying their asset management plans (AMPs) increase the risk that consumers will see bills rise above what is necessary and reasonable. Uncertainties in the sector, including uncertainties about staffing capacity, exacerbate this risk.
8. We acknowledge the commission's proposals will reduce EDBs' expenditure allowances by \$1.6 billion below the \$11.9 billion that the companies themselves forecast. However, the increase is still significant with capital and operating expenditure rising to \$10.2 billion (in nominal terms) over the regulatory period.
9. Our concern therefore remains that consumers will end up bearing the risks and costs of deficiencies in EDBs' planning and the industry's slow progress in recognising the important role of demand management and distributed energy resources in meeting electricity needs.

Deficiencies of asset management plans

10. EDBs' forecast expenditure relies heavily on the approaches and assumptions in their asset management plans. However, as the draft decision paper states (para X31.2) "the primary purpose of the AMP is as an asset management tool [and the plans] are not necessarily an appropriate forecast for investment for revenue setting purposes".
11. The limitations of AMPs are further highlighted in the review prepared for the commission by IAEngg. As the draft paper summarises (para 2.32), this review "confirmed that the content of AMPs is unlikely to enable opinions to be provided on the reasonableness of EDB expenditure forecasts or provide sufficient comfort for setting allowances at an individual EDB level".
12. We also note the commission's comment (para 2.33) that its own targeted review of a selection of AMPs indicated "that it would be inconsistent with a relatively low-cost regime to undertake the level of assessment required to obtain assurance from AMPs".
13. The findings of IAEngg's review and the commission's targeted review raise questions about whether consumers can have confidence in EDBs' projected expenditure and whether the "relatively low-cost regime" administered by the commission may be resulting in higher costs for households and small businesses.
14. While the draft paper expresses confidence (para 2.42) that "EDBs are in a good position to understand the needs of their consumers and communities, and they ought to understand the health of their assets", it cannot be assumed this is always the case and there is evidence to suggest gaps in EDBs' knowledge in significant areas.
15. One example is the gaps in knowledge about the low voltage (LV) network. As the commission has [previously reported](#), "most EDBs are either still developing the capability to collect LV network data (e.g., through monitoring equipment), and/or face difficulties obtaining and using smart meter data to report meaningful constraint information".

16. Without reliable data to identify under- or over-capacity on the existing network, it is not possible for EBDs to make robust decisions about future expenditure requirements. Instead, there is likely to be a tendency to assume expenditure is required under a “business-as-usual” approach to network planning.

Need to integrate “non-network solutions” into planning

17. The Council is concerned this same “business-as-usual” approach is forestalling EBDs’ consideration of demand management and distributed energy options that can help manage load and reduce the need for network investment, both in the short and long term.
18. International research suggests demand management and distributed energy resources will play a significant role in meeting future electricity needs and delivering power at an affordable price. It also suggests non-network solutions will play much more than the “relatively modest role” that the commission envisages (para 2.7).
19. We note the commission’s introduction of an innovation and non-traditional solutions allowance (the “INTSA”) as a means of encouraging EBDs to “find alternative ways to adapt their networks to decarbonisation trends, resilience expectations and changing consumer preferences” (X40).
20. The draft paper comments that the introduction of this allowance is consistent with the commission’s obligations under section 54Q of the Commerce Act to promote incentives, and avoid imposing disincentives, for EBDs to invest in energy efficiency, demand-side management and reduction in energy losses.
21. We acknowledge the commission’s intent in introducing this allowance is to encourage EBDs to consider “non-traditional solutions”. However, we remain concerned that non-network alternatives are not well integrated into EBDs’ planning and are typically viewed as an optional extra – like the INTSA itself, which will be available on application and capped at 0.6% of allowed revenue for each EDB over the regulatory period.

Consumers need assurance they will not be overpaying

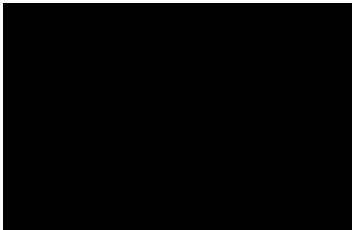
22. Given the issues outlined above, the Council recommends that the commission needs to carefully consider whether it can assure consumers they will not be overpaying for network investment if the proposed increase in EDB spending is approved.
23. We appreciate the difficulties of setting expenditure allowances at this time when energy technologies are changing rapidly. However, an environment of rapid change also necessitates caution in approving spending to avoid over-investment in sunset infrastructure. Such an approach does not prevent EBDs from using “reopeners” and other tools to allow expenditure to be reassessed should they be able to demonstrate a need for greater investment at a later date.
24. In the Council’s view, consumer confidence in EBDs’ planning and in the regulatory process to approve expenditure is unlikely to be high, unless these processes are based on robust information about consumers’ needs and ensure consumers can participate in decision making. At present, this is not the case.

Need for consumer-oriented planning

25. Internationally, the need to improve distribution and transmission planning (and funding) processes is receiving increasing attention. Best practice approaches are moving to more directed and transparent planning as countries navigate the energy transition.
26. As we discuss in our separate submission on Transpower's individual price-quality path, the term "consumer-oriented integrated planning" is being used in the US to highlight the central place of consumers in future networks. This type of approach starts by looking at consumers' needs and is being recognised as essential to affordability.
27. If New Zealand's regulatory system is going to deliver long-term benefits for consumers, a similar consumer focus must be integrated into distribution and transmission planning. This will require consumers and consumer representatives to be able to participate in these processes.
28. Our observations are that current approaches risk leaving New Zealand behind other countries in planning for the energy transition and will fail to meet consumers' needs. Changes are therefore required to ensure consumers do not end up paying the costs of poor planning and regulatory shortfalls.

Thank you for the opportunity to make a submission.

Yours sincerely



Deborah Hart
Chair, Consumer Advocacy Council