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Infrastructure New Zealand is the peak industry body for the infrastructure sector and promotes best practice in national infrastructure development through research, advocacy and public and private sector collaboration. Infrastructure New Zealand members come from diverse sectors across New Zealand and include infrastructure service providers, investors and operators.

This submission represents the views of Infrastructure New Zealand as a collective whole and may not necessarily represent the views of individual member organisations.

## **Infrastructure New Zealand feedback on the draft decision for the default price-quality paths for electricity distribution businesses from 1 April 2020**

### **Summary**

The pricing regulation for electricity distribution businesses (EDBs) is meant “to promote the long-term benefit of consumers”. This means ensuring that customers have electricity services that are both affordable and reliable.

Both affordability and reliability are of paramount importance. The Commission should not promote total reliability if it makes the network unaffordable, but neither should it drive affordability at the cost of an unreliable and non-resilient network.

We are concerned that the current default price-quality path (DPP) does not fully allow for the substantive and long-term investment needed to ensure reliability for customers.

### **Growing Pressures on Electrical Distribution Networks**

The electricity sector is currently facing many simultaneous pressures that will put pressure on its ability to reliably perform.



Climate change is increasing the frequency of extreme events. Not only will increasing droughts put pressures on electrical generation, but more frequent and severe storm events will have greater impacts on the infrastructure in electrical distribution networks. This is recognised by the adaptation role for lifeline utilities, including EDBs, set out in the proposed Zero Carbon Bill.

The accelerated electrification of New Zealand's vehicles could add as much as 8000 GWh of demand to our electrical network by 2035.<sup>1</sup> Generation and distribution infrastructure must be capable of responding to rapid increases in demand which may result from policy and/or technological changes.

Distributed generation, through residential solar installations and batteries, are also changing the demands on the network. Customers with these systems may make less use of the network, potentially limiting revenues, or will want to feed electricity back into the network, which will require more infrastructure investment by EDBs.

On top of these nationwide pressures, growth areas are facing additional challenges as they try to meet rapidly increasing demand and expansion costs. In the same way that Auckland's transport and housing infrastructure is currently strained, its electrical networks are facing similar growth pressures. Electricity networks are not immune to these pressures and EDBs in growth areas such as Auckland and the upper North Island, Canterbury, and Otago may need to substantially increase infrastructure investment to match the rising demand on their networks.

While EDBs may be able to regain some of this capital through increasing developer charges, such measures may conflict with other priorities that central and local governments have for affordable housing, sustainable growth, or reduced construction costs.

We note, for example, that infrastructure constraints are a key driver of rising house prices in growth regions across New Zealand. In developing its regulatory policies, the Commission needs to be mindful that electricity supply is central to the supply of housing and commercial and industrial development. The risks of undersupply vastly exceed the costs of oversupply. These costs are borne indirectly by consumers in the costs that they pay for housing and transportation.

### **The DPP Should Ensure Adequate Infrastructure Investment**

We are concerned that the DPP, as currently proposed, insufficiently accounts for the industry pressures and growth challenges facing EDBs, including adequate cashflows for meeting investment demands.

The DPP should have greater allowance for the substantial infrastructure investment required to prepare New Zealand for its electrical demands many decades in the future.

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<sup>1</sup> Interim Climate Change Committee, Accelerated Electrification, April 2019.



While other regulations and reviews, including the recent Electricity Pricing Review, are focused on electricity affordability, the DPP should guarantee the quality and resilience of electricity distribution in New Zealand.

We are concerned that a pricing pathway which does not adequately account for these pressures may not be capable of meeting the changing needs of different distributors across New Zealand.