KING COUNTRY TRUST
Whakarato Te Rohe Pōtae

11 JULY 2024

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

KING COUNTRY TRUST Submission on Energy Efficiency Incentives for EDB DPP4 Draft Decision

Dear Ben

The Commerce Commission is seeking feedback on its 29 May 2024 *"Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision"*.

The King Country Trust is an energy trust that grew out of the energy reforms of 1992 and 1998. Ownership is vested with the consumer beneficiaries and they are represented by trustees who constituted the King Country Trust which currently owns 25% of King Country Energy Limited plus a number of other investments within a structured investment policy statement.

It is with pleasure that we submit our feedback on this consultation with respect to the proposed incentives as they apply to energy efficiency.

New Zealand has an abundant low hanging fruit energy efficiency opportunity equating to about 15 percent of New Zealand electricity generation, which can be delivered significantly more cheaply than building new renewable generation capacity. King Country Trust have and will continue to support their consumer beneficiaries in energy saving and efficiency programmes that help alleviate the ongoing stress of high power bills, in a cold, unforgiving climate, that is the Central North Island. Whereas in urban areas, consumers have access to a variety of incentivising programmes, in the rural heartland of New Zealand, people can largely be forgotten. And so it is with many of our consumers, who faced with rising costs in all areas of their lives, resort to practices not consistent with healthy living standards.

Section 54Q of the Commerce Act specifically instructs the Commission to promote incentives for suppliers of electricity lines services to invest in energy efficiency in relation to electricity lines services, which are defined in the Act as meaning the conveyance of electricity. **We are of the opinion that EDBs should therefore be obligated and incentivised to invest in energy efficiency activities which benefit their residential and commercial customers, as this is an investment in energy efficiency.**

We therefore commend the Commission for proposing additional incentives to trial new solutions, including energy efficiency, in its draft decision.

However, it is critical that the actual energy efficiency incentives and associated methodologies for accessing these incentives in the Commission's DPP4 Final Determination maximise the likelihood that non-exempt EDBs deliver cost-effective energy efficiency initiatives that reduce peak loads and consumer bills.

Our four recommendations to the Commission for their DPP4 Final Determination are therefore:

1. That the more ambitious option – including maximum permissible INTSA expenditure of up to 5% of MAR – becomes part of the Commission's DPP4 Final Determination. Combined with recommendation two, a 5% allowance would strongly incentivise non-exempt EDBs to undertake larger and more ambitious energy efficiency initiatives. Furthermore, rather than this increased expenditure increasing consumer bills within the DPP4 period, the most cost-effective energy efficiency projects would actually reduce consumer power bills overall.

2. At least half of the (5% of MAR) INTSA[1] spending should be ring fenced for energy efficiency projects. This avoids the risk of non-exempt EDBs spending all their INTSA on high-tech devices and systems to aggregate load and control devices such as batteries to reduce system peaks – rather than on energy efficiency.

3. Up to 100% of project expenditure be recoverable for energy efficiency INTSA projects. This is consistent with Commission's outline in Paragraph D126.2 of the Commission's Reasons Paper.

4. Allow investment in energy efficiency devices in homes and businesses to replace less efficient devices for the purpose of deferring CAPEX, to be included in non-exempt EDBs Regulated Asset Bases. This submission provides a detailed justification as to why EBD-installed, behind-the-meter solutions like residential batteries and LED light bulbs qualify for Section 54Q Incentives and inclusion in the Regulated Asset Base.

We also note that:

1. **New Zealand energy consumers have a greater opportunity to improve the efficiency of energy use than those in many other countries because New Zealanders do not use energy very efficiently.**

2. This includes a cumulative 5,981 GWh[2] annual electricity saving potential from LED lighting, hot water heating, space heating and electric motors in New Zealand homes and businesses.

3. The average generation equivalent cost of implementing these electricity efficiency measures is significantly lower than the cheapest currently available renewable generation technologies, with electricity efficiency measures costing $15–50/MWh compared to new generation at $80–120/MWh.

4. $1.3 billion investment[3] that would be required to deliver the full technical potential for just the three most cost effective *"low hanging fruit" for* energy efficiency in New Zealand – namely for residential LEDs, other residential low-cost measures and commercial building LEDs.

5. The Commerce Commissions draft decision for the *"Default price-quality paths for electricity distribution businesses from 1 April 2025"* allows electricity distribution businesses (EDBs) to spend $12 billion over 2025 to 2030.

6. Because this 50% increase over the previous period will result in significant price rises for New Zealand households from 2025, it is important EBDs continue to have a strong social licence to undertake the required increased investment in their networks.

7. Being seen in their communities as organisations that do energy efficiency initiatives that help many households could be an important part of EDBs keeping their social licences.

8. **This has become even more important following the cancellation of the vast majority of the Government's funding for residential and commercial energy efficiency, along with the phasing out of the low-user 30 cents a day fixed charge, a regulation which greatly incentivised consumers to lower consumption through energy efficiency.**

[1] The *"Innovation and Non-Traditional Solutions Allowance"* in the Commerce Commission's DPP4 Draft Decision.
[2] *"Energy Efficiency First, The Electricity Story"*, Overview Report, Energy Efficiency and Conservation Authority, July 2019.
[3] Based on the scaled costings for residential LED, other residential low-cost measures and commercial building LEDs projects Ecobulb has delivered over the last three years in New Zealand.

9. Given the collapse in price-regulated and government-funded support for energy efficiency, we were greatly encouraged by the Commerce Commission's draft decision to establish an INTSA Fund to incentivise energy efficiency.

10. We agree that stronger incentives are required for non-exempt EDBs to undertake energy efficiency projects.

11. We also note that the current incentive structure has not resulted in any non-exempt EDB applying for, or receiving funding, under the DPP3 Innovation Project Allowance for energy efficiency projects, and the information disclosure data shows minimal or nil investment by EDBs in energy efficiency.

12. To further improve the INTSA, we propose that up to 100% of project expenditure is recoverable for energy efficiency projects, because this will increase the incentive for EDBs to undertake such projects for the benefit of consumers.

13. We agree with the Commission's outline in D126 of their *"Reasons Paper"*, including the significant step change in maximum permissible expenditure to up to 5% of MAR.

14. We agree that this more ambitious option would strongly incentivise EDBs to undertake larger and more ambitious energy efficiency initiatives.

15. We note that it is better to have a 5% of MAR maximum permissible expenditure available to EDBs that they don't spend, rather than having a lower percentage MAR limit that results in EDBs having insufficient maximum permissible expenditure to fund worthy energy efficiency projects.

16. We propose that up to 100% of project expenditure be recoverable for energy efficiency INTSA projects. This is consistent with Commissions outline in Paragraph D126.2 of the Commission's Reasons Paper where the share of project expenditure recoverable could be greater than 100% of costs depending on the assessed probability of success and the relativity between costs and benefits.

17. The incentive for non-exempt EDBs to undertake energy efficiency projects for the benefit of consumers would be further enhanced by allowing the installation of energy efficiency devices (such as LEDs) to replace less efficient devices in residential and commercial buildings for the purpose of deferring CAPEX to be included in non-exempt EDBs Regulated Asset Bases.

18. We note that the most cost-effective energy efficiency projects save consumers multiples of the investment required to deliver them, and therefore reduce consumer power bills overall.

19. Increasing the amount of spending on energy efficiency projects would therefore provide greater reductions overall in consumer bills, **potentially offsetting a significant portion of the project consumer bill rises over DPP4 if the EDB investment in energy efficiency is sufficiently high.**

Regards
On behalf of King Country Trust Trustees
For their consumer beneficiaries in Taumarunui, Turangi and Ohakune districts
[King Country Trust (kcpowertrust.co.nz)]