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

Re: Submission on Innovation Incentives for EDB DPP4 Draft Decision

Background

Thank you for the opportunity to submit on Innovation Incentives for EDB DPP4 Draft Decision. Trust Horizon is a local Charitable Trust with investments that include 100% ownership of Horizon Networks (Horizon Energy Distribution Limited).

By way of background to our submission Trust Horizon first began back in 1994. Originally named the Bay of Plenty Consumer Trust, it was formed with the goal of keeping a portion of the local electricity company under community ownership.

In 2000, the Trust was renamed the Eastern Bay Energy Trust (EBET). In 2015, the Trust obtained 100% ownership of Horizon Energy Group, which includes the lines company that distributes electricity to homes and businesses throughout the Eastern Bay of Plenty (population 52,000). The Trust has distributed over $48M to worthwhile energy-related causes in District since inception to assist the community with energy use, hardship, efficiency and transition.

Feedback

New Zealand has untapped energy efficiency opportunities[1] equating to about 15 percent of New Zealand electricity generation, which can be delivered significantly more cheaply than building new renewable generation capacity.

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 customers.

We therefore support the Commission in proposing additional incentives to trial new solutions, including energy efficiency, in its draft decision. NZ's sustainable and just energy transition will require a number of new and innovative approaches to our energy system, with explicit support for those consumers in energy hardship or least able to afford the cost of transitioning.

[1] *"Energy Efficiency First, The Electricity Story"*, Overview Report, EECA, July 2019.

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 can support the delivery of cost-effective energy efficiency initiatives that reduce peak loads and consumer bills.

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

1. That the maximum permissible INTSA expenditure is increased up to 5% of MAR – and this becomes part of the Commission's DPP4 Final Determination. This would strongly incentivise EDBs to undertake larger and more ambitious energy efficiency initiatives. Limiting the INSTA to 0.6% of MAR has the potential to severely limit the ability to scale successful opportunities and benefits to consumers within the DPP period. Furthermore, the risk of increasing the maximum expenditure appears limited as the Commission is the gatekeeper for approval of the funding.

2. At least half of the INTSA spending should be ring fenced for energy efficiency projects. This encourages non-exempt EDBs to actively explore both energy efficiency initiatives as well as demand management – which operate on different timescales to reduce overall energy system costs.

3. Either provide a further eligibility criterion or clarify that a project can include EDB funding to support other parties (where there is a clear impact on the supply of electricity lines services) to implement otherwise eligible or innovative or non-traditional solutions. This would recognise the changing nature of energy services and ownership boundaries (particularly at the low voltage level) and provide support where benefits accrue to consumers or other parties, but costs fall to EDBs. Examples of this include:

    a. the installation of demand response capabilities behind consumers' meters (eg energy management systems in combination with solar, battery, EV chargers, heatpumps, hotwater etc) that require EDB co-ordination systems to maximise their overall energy system benefit.
    b. working with a large customer to enable an energy transition / emissions reduction project by use of non-traditional solutions that can be replicated to others across the network.

We also note:

1. New Zealand energy consumers have a significant opportunity to improve the efficiency of energy use which needs to be unlocked, supported by all stakeholders and implemented. This includes a cumulative 5,981 GWh annual electricity saving potential from LED lighting, hot water heating, space heating and electric motors in New Zealand homes and businesses[2]. Although not explicitly mentioned these efficiency opportunities also support achieving emissions reduction targets.

2. 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.

3. 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.

[2] *"Energy Efficiency First, The Electricity Story"*, Overview Report, EECA, July 2019.

4. 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.

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

6. 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 fixed charge (which had unintended consequences and poor outcomes), but which greatly incentivised consumers to lower consumption through energy efficiency.

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

8. That stronger incentives are required for non-exempt EDBs to undertake energy efficiency projects.

9. That the current incentive structure the DPP3 Innovation Project Allowance has resulted in no energy efficiency projects being funded, and information disclosure data shows minimal or nil investment by EDBs in energy efficiency.

10. 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 projects.

11. 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.

12. Increasing the amount of spending on energy efficiency projects would provide reductions overall in consumer bills, potentially offsetting a portion of the consumer bill rises over DPP4 if NZ's investment in energy efficiency is sufficiently high.

Yours faithfully

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Derek Caudwell
Chief Executive, on behalf of Trust Horizon