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★ wellington electricity™

**Default price-quality paths for
electricity distribution
businesses from 1 April 2025**

02 August 2024

1 Submission and contact details

Consultation	Cross Submission on EDB DPP4 Draft Decision
Submitted to	Commerce Commission
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2 Confidential information

Nothing in this submission is confidential and Wellington Electricity Lines Limited is comfortable for this cross-submission to be published in its entirety.

3 Introduction

Wellington Electricity Lines Limited ("**WELL**", "**we**", "**us**", "**our**") welcomes the opportunity to provide a cross-submission in response to submissions made to the Commerce Commission's (**Commission**) '*Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision (The Draft Decision)*'.

WELL is a member of the ENA and participated in the development of their cross-submission. This submission complements their submission points.

4 Funding non-traditional solutions

Stakeholders were generally supportive of the Draft Decision. Most submissions highlighted the importance of developing non-traditional solutions (NTS) and supported the provision of innovation

allowances (EECA¹, ERANZ², MEUG³, Mercury⁴, Powerswitch⁵, and Rewiring Aoteroa⁶) and opex allowances (Business Energy Council⁷), to develop this new capability. We agree with Consumer Advocacy Council that flexibility will be an important tool for managing customer bill increases.

We also agree with the Consumer Advocacy Council's concerns about the slow progress in developing flexibility and that NTS are not yet incorporated into asset management plans (AMP).

It's important to note that non-exempt networks do not have the allowances to develop the tools and processes needed to incorporate flexibility into their AMP processes. The INSTA and the opex step change for low voltage (LV) management tools provide funding that will allow EDBs to consider flexibility.

It is also important to note that even with the additional allowances, EDBs will not be able to use NTS to avoid more expensive traditional solutions unless:

- EDBs still have allowances to fund essential maintenance and outage response functions to maintain regulatory quality standards. Under the current draft decision, Wellington Electricity and Powerco (who together service 23% of New Zealand customers) are likely to need the allowances from opex step change to fund increases in their field services. We will not be able to use the step change for its intended purpose – to develop the LV management tools needed to incorporate NTS.
- EDBs can purchase flexibility services to solve specific network constraints. As we highlighted in our *'EV Connect Roadmap⁸'* and in the FlexForum *'Flexibility Plan 1.0'⁹*, the growth of flexibility and NTS requires development across the whole electricity supply chain. The development of NTS and flexibility does not sit with EDBs. Even if EDBs had the tools to identify

¹ EECA, 2024. Page 5. *EDB DPP4 Draft Decision*, Available at https://comcom.govt.nz/__data/assets/pdf_file/0027/359217/EECA-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

² ERANZ, 2024. Page 3. *EDB DPP4 Draft Decision*, Available at https://comcom.govt.nz/__data/assets/pdf_file/0022/359221/ERANZ-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

³ MEUG, 2024. Para 27. *EDB DPP4 Draft Decision*, Available at https://comcom.govt.nz/__data/assets/pdf_file/0027/359226/Major-Electricity-Users-Group-MEUG-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

⁴ Mercury Energy, 2023. Page 2. *Mercury Submission on EDB DPP4 Draft Decisions*, Available at https://comcom.govt.nz/__data/assets/pdf_file/0028/359227/Mercury-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

⁵ Powerswitch, 2024. Page 7. *EDB DPP4 Draft Decision*, Available at https://comcom.govt.nz/__data/assets/pdf_file/0030/359238/Powerswitch-Consumer-NZ-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

⁶ Rewiring Aoteroa, Page 2. *EDB DPP4 Draft Decision*, Available at https://comcom.govt.nz/__data/assets/pdf_file/0023/359240/Rewiring-Aotearoa-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

⁷ BEC, 2024. Para 20. *EDB DPP4 Draft Decision*, Available at https://comcom.govt.nz/__data/assets/pdf_file/0023/359213/Business-Energy-Council-BEC-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

⁸ Wellington Electricity, 2021. *EV Connect Roadmap*. Available at <https://www.welectricity.co.nz/assets/DMSDocuments/EV-Connect-Draft-Roadmap.pdf>

⁹ Flexforum, 2022. *Flexibility Plan 1.0*. Available at <https://flexforum.nz/wp-content/uploads/2024/01/FlexForum-Flexibility-Plan-1.0-31-August-2022.pdf>

where it is more efficient to use NTS to solve network constraints, the services aren't available to purchase yet.

We are buoyed by EECA's submission and the focus on increasing market saturation of customer smart products that can participate in NTS. EECA and the other regulatory bodies all need to make important changes to support the development of flexibility¹⁰. We agree with Mercury who submitted that the benefits of a smart system require a coordinated, multi-year work programme across a number of regulatory and government agencies.¹¹

5 Backloading revenue smoothing

ERANZ¹² and MEUG¹³ agreed with smoothing the revenue path but submitted that the smoothing should be 'back-loaded' towards the end of the regulatory period. We disagree as it will create further customer bill shocks. As highlighted in the Draft Decision¹⁴, 'backloading' the revenue smoothing creates larger bill increases in the later years because of the time value of money adjustment. It's also likely to result in a large decrease in the transition from DPP4 to DPP5.

We reiterate our opinion¹⁵ that New Zealand should move to a trailing average approach like that used in Australia to avoid price shocks like we are now experiencing.

6 Capital expenditure

Fonterra and MEUG submitted that capital expenditure should be capped at a lower level to reduce the size of the price increase. We disagree with this for two reasons:

- Capital forecasts are based on the investment needed to meet the regulatory quality standards. If networks don't invest then the probability of outages will increase. The AMP provides the asset health assessments and capacity studies that support the forecast capex, demonstrating why the investment is needed.
- Electricity distribution assets are long-lived (with an average life of 44 years) and the capital expenditure is recovered over a long time. The price impact of increasing the revenue cap is negligible. Powerco's submission estimates a 5% increase in the cap would have a \$0.57 change in monthly bill per ICP¹⁶.

¹⁰ Wellington Electricity, 2021. Page 5. *EV Connect Consultation Draft Roadmap*

¹¹ Mercury, 2024. Page 2. *Mercury Submission on EDB DPP4 Draft decisions*

¹² ERANZ, 2024. Page 2. *ERANZ-Submission-on-EDB-DPP4-draft-decisions*

¹³ MEUG, 2024. Page 2. *Major-Electricity-Users-Group-MEUG-Submission-on-EDB-DPP4-draft-decisions*

¹⁴ Commerce Commission, 2024. Para 4.50. *Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2025-Draft-reasons-paper*

¹⁵ Wellington Electricity, 2024. Page 4 *Wellington Electricity Submission on DPP4 Draft Decision*. Available at https://comcom.govt.nz/__data/assets/pdf_file/0028/359209/5BPUBLIC5D-Wellington-Electricity-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

¹⁶ Powerco, 2024. Para 44. *Powerco-Submission-on-EDB-DPP4-draft-decisions*. Available at https://comcom.govt.nz/__data/assets/pdf_file/0032/359285/Powerco-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

7 Scarce operating allowances

We note and agree with Fonterra's submission that there should be LV quality measures. This will require networks to develop LV monitoring and management tools to provide them with visibility of the LV network and LV outages. The step change mechanism provides some networks with some allowances to develop these tools. However, the step change amount is capped at 5% so networks may not have the allowances to develop the full suite of tools required.

Furthermore, if networks have competing cost increases that are not provided for by the allowances, then they may have to reprioritise expenditure to more critical functions. For example, we will have to use any additional allowances provided by the step change to fund an expected increase in our essential maintenance and fault response functions that are needed to meet our regulatory quality targets.

As highlighted in our submission to the draft decision, changes are needed to allow a higher level of scrutiny for operating expenses that are critical to maintaining network quality (like the Risk Event Reopener provides for capital expenditure). An opex reopener would allow the Commission to apply a higher level of scrutiny to new allowances in limited circumstances. A reopener would also allow the allowance decision to be made when costs are known (when tenders are received), removing forecast errors and supporting the procurement of services from a competitive market and ensuring low long-term costs for consumers.