PO Box 106165,
Auckland 1143, New Zealand
NZBN 9429041132524 | **GST** 113618701

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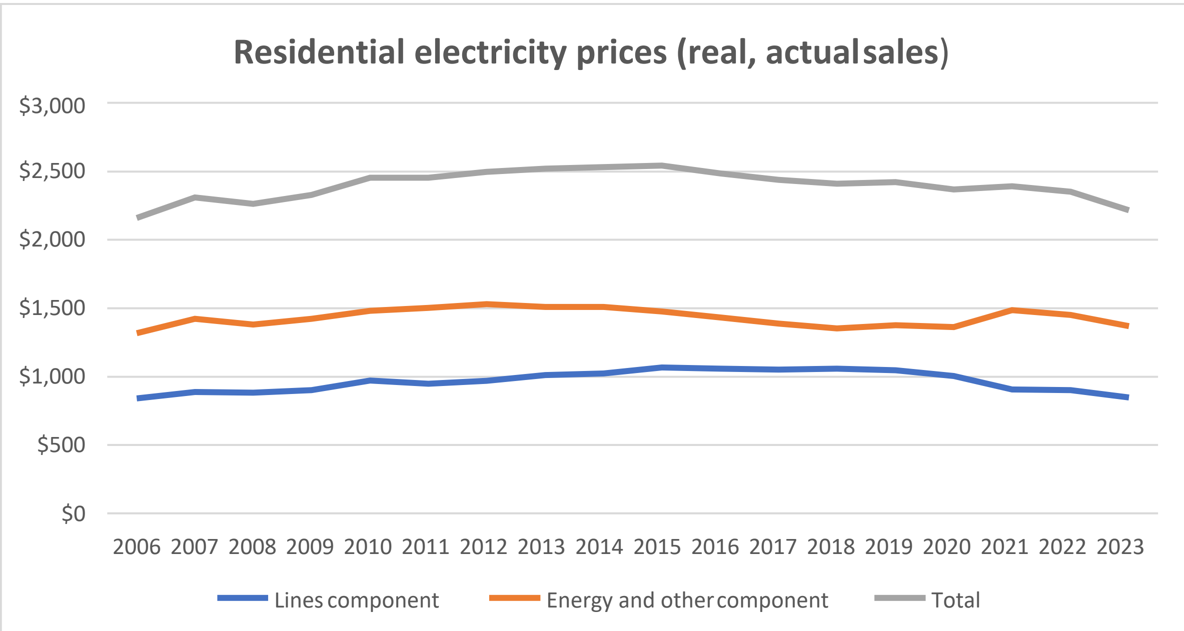
Ben Woodham
Electricity Distribution Manager
Commerce Commission
Wellington
New Zealand

By e-mail: infrastructure.regulation@comcom.govt.nz

Submission on EDB DPP4 reset

Electric Kiwi welcomes the opportunity to submit in response to the Commerce Commission's EDB DPP4 reset.

We are conscious that at the last reset there were substantial network price reductions, on the back of very low interest rates, but concerns were raised about the extent to which these were passed through to consumers.[1] The electricity distributors were concerned the price reductions ended up being to the long-term benefit of the incumbent gentailer wholesale businesses – with the network price reductions being used to offset high (and excessive) wholesale costs – rather than to the long-term benefit of consumers.



[1] e.g. https://www.energynews.co.nz/news-story/electricity-prices/57867/consumers-lose-lines-charge-cuts-evaporate-ena

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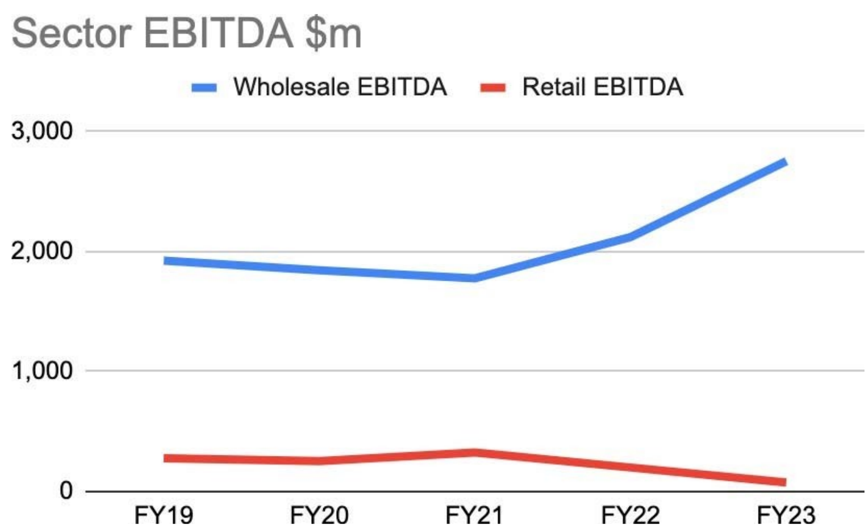
We are sympathetic to the electricity distributor concerns.

The concerns are borne out by MBIE residential price monitoring[2] which shows that while residential prices did go down following the last reset, the bulk of the network price reductions were absorbed in the energy (retail/wholesale) component of consumer bills. This highlights wider questions about how competitive the electricity market is and the extent to which it can be relied on to ensure consumers get the full benefits of network price regulation.

We would have preferred to have been able to offer our customers and other electricity consumers the full benefit of the 2020 price reset rather than effectively having to pay it over to Contact, Genesis, Mercury and Meridian to fund sustained excessive wholesale prices and, ultimately, the year-on-year record profits they have been able to announce.



Our emerging view is to assess price shocks for consumers using the real change in aggregate distribution revenue from year-to-year, with a particular focus on the change between regulatory periods.

Do you agree with this approach? If not, are there other alternatives we should consider?

When applying this (or any other) analysis, what factors should we consider in determining whether a price change amounts to a price shock?

One of the things the above observations highlight is that it could be simplistic to assess price shocks for consumers using the real change in aggregate distribution revenue. The experience with the 2020 price reset is that network price changes are not necessarily fully passed through to consumers.

[2] https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-statistics-and-modelling/energy-statistics/energy-prices/electricity-cost-and-price-monitoring/

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For example, if network price increases are fully passed on to end-consumers (likely in 2025 given the continued financial pressure electricity retailers face) – while the reductions at the 2020 reset were not – consumers could end-up facing higher prices regardless of whether network prices have increased in real terms over that time. This isn't an outcome you should expect in a fully competitive market.

We consider there could be merit in investigating the extent to which network price changes are passed through (including how rapidly). We are aware the Commerce Commission has done this kind of analysis in telecommunications.[3] The Electricity Authority had intended to look at how 2020 network price reductions were passed-through but did not do so.

It might also be worth considering price shocks in the wider context of network price smoothing (including smoothing prices across different regulatory periods). There have been arguments, for example, that lower interest rates could be used to accelerate cost recovery (analogous to households paying down their mortgage faster when interest rates are lower). While it is a matter for consideration as part of the Input Methodologies, we are also sympathetic and supportive of views that the prevailing rate WACC with a trailing average WACC. This would have dampened the 2020 network price reductions but also dampened prospective 2025 price increases.

Yours sincerely,

[redacted]

ELECTRIC KIWI LIMITED
Luke Blincoe
CEO
Email: [redacted]

[3] https://comcom.govt.nz/__data/assets/pdf_file/0030/59457/Wholesale-pass-through-study-Final-report-21-June-2017.pdf