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Tēnā koe,

Default price-quality paths for electricity distribution businesses from 1 April 2025 – Issues Paper

Thank you for the opportunity to respond to the 2025-2030 Default Price Quality Path (DPP) issues paper.

Electricity distribution services are a key enabler of the electrification and decarbonisation of the New Zealand economy. It is essential that the networks are able to invest to efficiently grow capacity. It is also essential that the impact on consumers is kept front of mind to not only minimise financial hardship, but also to retain trust in the electricity sector during the energy transition.

Our submission focusses on the challenging balance between maintaining the ability for distribution companies to invest, and minimising price shocks for consumers. As noted by the Commission, changes to interest rates, inflation, and a growing investment pipeline make this balance challenging. We also provide some comments on the proposed innovation allowance.

Ensuring EDBs are well placed to deliver on necessary investment

It is in the long-term interests of consumers that distribution companies continue to make efficient investments. We recognise that this investment will need to increase to support a more electrified economy. As noted by BCG investment in the second half of the 2020s may be ~30% higher than 2022 to accommodate a significant build out of network infrastructure.[1]

To ensure that this investment is possible, we support calls for the Commission to undertake a financeability test as part of the draft decision. Applying such a test will provide better information to the Commission, the wider government and other stakeholders about the challenges of the next period.

We agree with the Commission that the financial hardship threshold should only be met where it is to such an extent that it is inconsistent with the long-term interests of consumers. In practice we interpret this to mean when an EDB would be unable to make necessary expenditure after taking all other prudent financial actions.

We also broadly support the proposed changes to the capex estimates. A greater level of sophistication will provide a more accurate allowance for necessary investment. However, this needs to be balanced against the low-cost nature of a DPP. Significant increases in investment still justify a greater level of scrutiny via a CPP.

[1] https://web-assets.bcg.com/b3/79/19665b7f40c8ba52d5b372cf7e6c/the-future-is-electric-full-report-october-2022.pdf, p76.

We also welcome the greater level of expenditure flexibility introduced in the review of the input methodologies. In particular we were happy to see the provision for a reopener to allow for investment to address capacity constraints. This will be an important feature in adjusting to a lumpy and uncertain energy transition. We also support the final version of the large connection contract mechanism. This is a pragmatic solution where it works in favour of both parties.

How to define a price shock

In past resets the Commission has applied a price shock threshold of 10%+CPI. However, for the 2025 reset the Commission will re-assess this threshold, taking into account the impact on consumers, as well as the impact on the distribution companies.

To help inform this judgement, we encourage the Commission to do further work on defining a price shock. For example, one proxy for a price shock could be retail customer-switching behaviour. This shows a revealed preference of price sensitivity.

Research on New Zealand residential bill-payers found that in 2019 40% of customers are price sensitive and would switch energy retailers if they could save $125 or more. $125 is roughly 6% of the average customer bill in 2019.[2] That suggests that the 10%+CPI price shock threshold is at the higher end of a price shock estimate.

We also note that many customers are on fixed contracts of two or more years. That means that when they exit the contract, they will face multiple years of network charge increases. If, for example, there were three years of consecutive 10%+CPI price changes a customer exiting a three-year contract could see their final retail bill increase by more than 15% before wholesale electricity and retail price pressures are considered.

We support retaining the current 10%+CPI limit on total revenue as a lenient estimate of a price shock. We do not support per-user or per-unit of supply measures as this is highly reliant on estimates of growth, which have proven challenging to get right. It risks placing a greater burden on consumers due simply to forecasting error.

We also do not support assessing price shock thresholds separately for each EDB based on the ability to pay for customers in their region. This is a crude measure and would miss significant diversity in each region.

Innovation incentives

We support distribution companies having the right incentives to invest. There are some cases where the standard incentives of a price path will not encourage innovations for the benefit of the wider industry and end consumers.

We support the proposed principles for the innovation and non-traditional solutions allowance, particularly the additionality principle, which will help ensure that the allowance will have the greatest impact.

However, we propose an additional principle that considers whether the innovation project could be offered by non-regulated parties, as will be the case for some non-network solutions. In those cases, we recommend that innovation support should be provided by other parts of government so that it is open to all potential suppliers. Including these types of projects within the DPP would make the allowance exclusive to distribution companies creating a competitive imbalance, which could limit rather than enhance innovation.

[2] The average consumer bill in 2019 was $2,077 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/

Please contact me at [redacted] if you wish to discuss further.

Ngā Mihi,

[redacted]

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