



**11 July 2024**

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## **EDB DPP4 Draft Decision**

Energy Trusts of New Zealand Incorporated (ETNZ) welcomes the opportunity to provide feedback on the Commerce Commission's 29 May 2024 draft decision on 'Default price-quality paths for electricity distribution businesses from 1 April 2025'.

ETNZ represents and advocates on behalf of regional energy trusts throughout New Zealand. These Trusts are owners of companies operating electricity distribution networks, on behalf of local consumers and communities. ETNZ is the collective voice of consumer-owned power distribution in New Zealand.

Twenty of New Zealand's 29 EDBs are Trust owned – either in part or full. It is the dominant ownership model. Trust-owned EDBs supply electricity to more than one and a half million customers and collectively have over \$9 billion in network assets. Crucially, these networks are owned by their customers, which ensures they can strike an appropriate balance between affordability of prices to current customers and investing in an increasingly critical piece of community infrastructure for future generations. The companies our members own are also the closest physical link to customers. Our people are the boots on the ground, active in our communities, ensuring the lights stay on.

EDBs are recognised as enablers of New Zealand's transition to a low-carbon future. To get to this future will require significant increases in investment and for EDBs to adopt new ways of doing things. This has to be achieved against a backdrop of significant and sustained cost inflation, a need to train and develop people, and considerable uncertainty as to how this new future will develop.

These issues are traversed in more detail by others and ETNZ does not wish to regurgitate these points. We support Electricity Networks Aotearoa's (ENA's) submission to the Commission on the draft decision. Thirteen of the 20 Trust-owned EDBs are currently exempt from the Commission's power-quality regulation. ETNZ is in the unique position of being able to see how our members respond to future challenges within and outside the current regulatory framework. Our feedback is made in this context.

In our view, it is critical that the future regulatory framework encourages innovation, recognises the cost pressures EDBs are experiencing, and is flexible enough to quickly respond to unforeseen situations requiring increased investment.

**1. Stronger incentives for innovation are needed**

We welcome the proposed innovation and non-traditional solution allowance (INTSA) with two recommendations. Firstly, we encourage the Commission to adopt the maximum permissible level of up to 5% of MAR. Secondly, we believe strongly that energy efficiency projects should be eligible for funding under this mechanism. Our members have a long history of supporting these projects for the betterment of their customers and communities and have seen firsthand the benefits such initiatives deliver. They are an effective means of providing relief for families experiencing hardship.

**2. Is revenue smoothing a good move?**

The Commission is proposing to smooth revenue movements as a means of muting the price impact to customers. This is dangerous territory for the Commission to move into. The Commission's role is to ensure that non-exempt EDBs are able to prudently invest in their networks for the long-term benefit of their customers, remembering that investment in networks to enable decarbonisation will result in lower total energy costs for these customers.

As many others will no doubt submit, the bulk of the increases are caused by a reversion to rates of return that are more consistent with long-term averages than the artificially low WACC for DPP3. The Commission must learn from this and adopt an approach that delivers greater price stability.

A focus on the avoidance of price shocks may inadvertently flow into reducing network investment. While ETNZ is concerned about the costs its customers face, it is more concerned about creating unwanted disincentives to invest.

**3. A cap on step opex change doesn't reflect the current operating environment**

An arbitrary 5% cap on step opex change does not reflect the operating environment EDBs currently find themselves in. Our sector is seeing sustained construction cost inflation well ahead of headline inflation. This is being driven from many factors, all of which are outside the direct control of EDBs. These include global shortfalls in resources, global constraints in equipment availability, increased regulatory and compliance costs (e.g. traffic management), and the increasing frequency of weather events and third party-driven faults. None of these factors are likely to abate in the near-term. Furthermore, EDBs cannot choose to avoid them, unlike other businesses in competitive markets who can choose where they operate or not. We are obliged to supply our customers and, with this obligation, comes an unavoidable exposure to rapidly increasing costs.

Capping costs will not drive efficiency in delivery per se. Instead it is more likely to result in deferred investment which will be more costly for customers in the long-term.

#### **4. Mechanisms to deal with uncertainty need to be clear and easy to use**

We are in a period of considerable uncertainty. We understand the Commission's desire to deal with this through mechanisms such as DPP reopeners rather than to allow EDBs increased capex based on scenarios that may not eventuate.

While such an approach is sensible, it will only work if the Commission is able to respond quickly and consistently to situations that may arise. It is not uncommon for EDBs to have large customer connection requests emerge with little prewarning. Similarly, as we have seen, the impacts of storm events such as cyclone Gabrielle can be devastating for networks. We encourage the Commission to make its processes to seek reopeners clear, simple, and prompt. In a resource-constrained and price-sensitive environment, it does not make sense for EDBs to have to expend considerable effort on such activities, without a degree of confidence about the likely outcomes.

#### **5. Exempt EDBs offer a useful benchmark**

While outside the scope of the draft decision, we note that having a portion of EDBs exempt from price-quality regulation allows the Commission to examine how its regulatory framework can be adapted in future to ensure all EDBs are empowered to respond to the challenges they face. We already see differences in decision-making between exempt and non-exempt EDBs and would be happy to facilitate further discussion with the Commission to help inform you of these differences.

Exempt status was created in recognition that Trust-owned EDBs are effectively self-regulating. Having alignment between customers and shareholders ensures that any excess profits are returned to customers and also incentivises investment for the long-term over the short-term return of profits. It is a model we believe has been proven to function effectively.

We welcome the opportunity to engage further with the Commission on any of the points raised in our submission.

**Richard Allison**

**Chair**

**Energy Trusts of New Zealand**