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SUBMISSION ON DPP4 DRAFT DECISION

1. INTRODUCTION

Thank you for the opportunity to make a submission on the Commerce Commission's draft decision on the default price quality paths for electricity distribution businesses from 1 April 2025 (DPP4).

This submission is from Consumer NZ, an independent, non-profit organisation dedicated to championing and empowering consumers in Aotearoa. Consumer has a reputation for being fair, impartial and providing comprehensive consumer information and advice.

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2. COMMENTS ON THE CONSULTATION

Ongoing access to safe, reliable and affordable electricity is fundamental to consumer health and wellbeing, and their ability to function in a modern society. Electricity is universally accepted as an essential service. The inability

to access electricity severely impacts consumers' lives, particularly people in vulnerable situations, such as those living with a health condition or disability who rely on electricity to support their lives.

Large investments will make electricity increasingly unaffordable

Since the advent of the electricity retail market as we know it today, residential electricity prices have increased by around 35%.¹

New Zealand's power demand is expected to grow significantly in coming years. MBIE forecasts that increased electrification means we will be using around 81% more electricity than we do now².

To meet this increased demand, large investments will be required in New Zealand's electricity system. This will put further upward pressure on electricity prices.³

For example, lines costs (national grid and local distribution network combined) currently comprise around 40% of a residential electricity bill⁴. Any significant increases to the costs of lines infrastructure will hence have a material effect on the household cost of electricity.

The Commerce Commission's draft decision for the *Default price-quality paths for electricity distribution businesses from 1 April 2025* would set electricity distribution businesses (EDBs) a maximum allowable revenue of \$12 billion over 2025 to 2030. This represents a 50% increase over the previous period.

The Commission is also proposing to set Transpower's maximum allowable revenues at a total of \$5.8 billion for the next five years. This represents an increase of 43% compared to the previous five years.

¹ Ministry of Business, Innovation & Employment, 'Energy prices', <https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-statistics-and-modelling/energy-statistics/energy-prices/>.

² MBIE Electricity Demand and Generation Scenarios Report, [as reported in the NZ Herald](#).

³ Boston Consultancy Group, "[The Future is Electric – A Decarbonisation Roadmap for New Zealand's Electricity Sector](#)", October 2022".

⁴ [Electricity Authority](#). 37.5% This the national grid (Transpower) and local lines distribution costs combined. On average this breaks down as 10.5% for the national grid and 27% for the local lines.

These increases will result in significant price rises for New Zealand households from 2025.

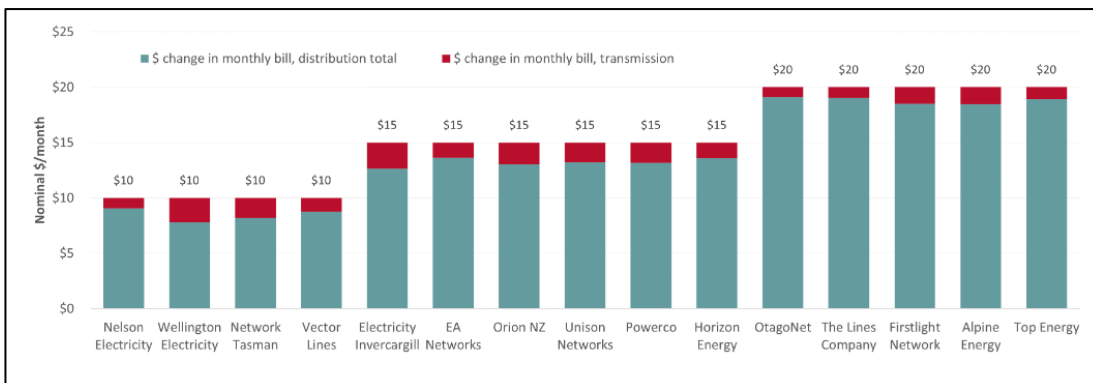
Price increases will disproportionately affect lower income regions

The Commission’s draft decision will significantly increase the price path in the next regulatory period. Consumer has calculated that the expected increases for an average household each year will be:

Year	Average monthly increase in bill (from 1 April in each year)	Cumulative monthly increase	Cumulative total increase in annual bill
2025	\$15	\$15	\$180
2026	\$5	\$20	\$240
2027	\$5	\$25	\$300
2028	\$5	\$30	\$360
2029	\$5	\$35	\$420

These are approximate national average figures. The actual increases will vary by region and consumer, e.g. a household’s electricity bill will be different depending on where the household is located.

In the first year, some regions will see average increases of \$10 per month, while others will see average increases of \$20 per month. For an average household, this constitutes an 8% to 11% increase in their power bills.



Unfortunately, some of the areas seeing the highest increases are those that have lower than average incomes, higher levels of deprivation, and are already struggling with higher-than-average electricity prices.⁵

Many households are already struggling to pay their power bills. In the latest Consumer NZ survey, 31% of respondents said they were very concerned about the cost of their household's electricity and 19% of respondents reported they had experienced financial difficulty paying their monthly power bill in the past 12 months. Around 11% reported underheating their homes due to the cost of electricity⁶.

We know that around 110,000 New Zealand households are already facing energy hardship.⁷ Large step changes in electricity prices will only exacerbate this already dire situation.

Consumer understands that maintaining a resilient and reliable electricity network requires investment. However, this needs to be tempered against affordability. The value to be derived by delivering resilient infrastructure will be undone if the cost of that resilience is an increasing segment of the population unable to heat their homes adequately or facing disconnection from their electricity supply because they are unable to pay their escalating bills.

3. SUGGESTED MEASURES FOR MANAGING THE INCREASING COST OF ELECTRICITY

To some extent we believe it is possible to 'have our cake and eat it too'. Consumer believes there are practical steps that can be taken that would allow investment in infrastructure while helping consumers better manage the increasing cost of electricity – namely, increasing the focus on energy efficiency and demand-side initiatives.

⁵ [CNZ research](#).

⁶ CNZ 2024 Energy Retailers Survey

⁷ MBIE [2022 report on energy hardship](#)

Ensure lines companies invest in energy efficiency and demand-side initiatives where it is lower cost and practical to do so.

The savings to consumers that could be generated through energy efficiency and demand-side initiatives would help offset the projected increase in power prices that will result from increasing investment in lines infrastructure.

Under Section 54Q of the Commerce Act, the Commission is required to encourage lines companies to invest in energy efficiency and demand-side management.⁸

We are encouraged that the draft decision proposes incentives to trial new solutions. We agree with the Commission's outline in D126 of its *Reasons Paper*, including the significant step change expenditure to up to 5% of maximum allowable revenue (MAR).

We agree this more ambitious option would strongly incentivise EDBs to undertake larger scale energy efficiency initiatives.

EDBs having an innovation and non-traditional solution allowance (INTSA) of 5% of MAR allows them to undertake larger and more innovative energy efficiency and demand-side initiatives.

We submit that, in order to help mitigate large household power bill increases, lines companies should be able to fully use their maximum allowable-expenditure on efficiency and demand-side initiatives and this should be stipulated in the final DPP4 determination.

To ensure EDBs are encouraged to invest in non-lines alternatives, 100% of project expenditure should be recoverable for INTSA projects. This includes investment in strategic distributed generation systems, in energy efficiency devices in homes and businesses, and in replacing less efficient devices, for the purpose of deferring lines spending.

⁸ [Section 54G of the Commerce Act](#): The Commission must promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand-side management, and to reduce energy losses, when applying this Part in relation to electricity lines services.

There is significant potential for demand-side initiatives to defer lines investment

Demand-side flexibility describes situations where consumers change the time or the amount of their electricity consumption. A recent survey by the Electricity Authority showed that there could be around 450MW of demand flexibility currently available within the network.

The amount of potential demand-side flexibility will increase with greater electrification. We believe this flexibility is one of the most promising mechanisms for controlling demand peaks in the immediate future.

A traditional example of demand-side flexibility is the control of consumers' hot-water cylinders. We believe this approach could increasingly be applied to other applications, for example controlling electric vehicle charging. Currently, 80% of EV owners do the bulk of their vehicle charging at home, with 70% of them prepared to shift their charging times to off-peak periods.⁹

We believe demand-side flexibility offers a rare win-win, with savings directly passed to the consumer.

Likewise, in some situations, judicious investment in local distributed generation will increasingly be a lower-cost alternative to lines upgrades.

Recent analysis by Rewiring Aotearoa indicates the levelised price of rooftop solar is now around 12c/kwh, and for solar battery systems around 21c/kWh¹⁰, which is lower cost than the current average network-delivered residential electricity price at around 35c/kWh¹¹.

Outside of the DPP reset, but essential to the widespread uptake by consumers of demand-side initiatives, are pricing mechanisms that reward households for helping networks manage their peak-load growth. Our experience with running the Powerswitch service shows that households on time-of-use plans, that are

⁹ [EECA EV charging survey](#)

¹⁰ Rewiring Aotearoa [Electric Homes report 2024](#)

¹¹ 34.7c/kWh, MBIE [QSDEP May 2024](#)

prepared to load-shift, can typically save 10% to 20% of their power bill. Greater adoption by lines companies of cost-reflective distribution pricing would encourage more retailers to adopt time-of-use pricing plans in areas that require significant investment in order to meet increasing peak demand.

Lines companies should be encouraged to invest in energy efficiency initiatives

New Zealand has an abundance of energy efficiency opportunity – equating to about 15% of the country’s electricity generation – which can be delivered significantly more cheaply than building new renewable generation capacity.¹²

New Zealand energy consumers have a greater opportunity to improve the efficiency of their energy use than those in many other countries, because, at present, New Zealanders do not use energy very efficiently.

These efficiencies include a cumulative 5,981 GWh¹³ potential annual electricity saving from LED lighting, hot-water heating, space heating and electric motors in New Zealand homes and businesses.

We believe that stronger incentives are required for EDBs to undertake energy efficiency projects.

The current incentive structure has not resulted in any EDB applying for, or receiving funding, under the DPP3 Innovation Project Allowance for energy efficiency projects. Information disclosure data shows minimal or nil investment by EDBs in energy efficiency.

To further improve the INTSA, we propose that up to 100% of project expenditure should be recoverable for energy efficiency projects. This will increase the incentive for EDBs to undertake such projects for the benefit of consumers.

We note 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

¹² ECA report, [Energy Efficiency First, The Electricity Story, Overview Report, July 2019](#).

¹³ Ibid

MAR limit that results in EDBs having insufficient maximum permissible expenditure to fund worthy energy efficiency projects.

The incentive for non-exempt EDBs to undertake energy efficiency projects for the benefit of consumers could be further enhanced by allowing energy efficiency devices to replace less efficient devices in residential and commercial buildings for the purpose of deferring the CAPEX to be included in non-exempt EDBs' regulated asset bases.

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