

2 August 2024

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Dear Ben

Electricity Distribution Businesses DPP4 – Draft decision

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's draft decision paper "*Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision*"¹ and supporting material published for consultation on 29 May 2024.
2. MEUG members have been consulted on the approach to this cross-submission. Members may lodge separate cross-submissions. This submission does not contain any confidential information and can be published on the Commission's website unaltered.

Summary of MEUG's points

3. Due to the large number of submissions received on the DPP4 reset and the number of issues currently facing electricity consumers (including the increasingly high and unsustainable wholesale electricity prices), MEUG has only undertaken a high-level review of the submissions made by the sector. Therefore, our comments are high-level and focused on the most pressing issues raised through submissions: MEUG considers that:
 - The Commission needs to evolve how it models and communicates the consumer price impacts from the DPP4 decisions. EDBs need to work with retailers to ensure the price changes are communicated clearly and are transparent of the drivers for increases.
 - Further discussion is needed on the practicability and scope of re-openers. We endorse the big six EDBs developing draft guidance in this area, to further discussion of what an effective regime would look like. The workshop in mid-August is a positive step.
 - A stronger focus is needed on innovation, demand management and energy efficiency.

¹ https://comcom.govt.nz/data/assets/pdf_file/0031/353983/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2025-Draft-reasons-paper-29-May-2024.pdf

- We disagree with the EDBs call for a 130 – 135% cap on Capex levels for DPP4. A stronger focus on productivity is needed first, as well as a focus on ensuring deliverability of the proposed work programme.
- The sector is calling for changes to the Part 4 regulatory regime to ensure that it is future proofed and best meets the needs of consumers. A review of the regime should be commenced following the conclusion of the DPP4 and RCP4 processes.

4. We expand on these points below.

Need to evolve modelling of consumer price impacts

5. It is important that the Commission clearly communicate the impact of its DPP4 decisions on all types of electricity consumers, be it residential households, commercial businesses or large industrial players such as MEUG’s members. The consumer information released with the draft decision in May 2024 was a positive step, but we agree with stakeholders who call for the Commission to “*evolve its understanding and modelling of consumers price impacts.*”²

Commission continues to assess consumer price impact on a per ICP basis, which is not appropriate for the DPP4 period. We advocate for using a per kWh measure for assessing price impact. A per kWh measure captures both increases in the number of ICPs and increases in the amount of energy consumed per ICP from electrification (Aurora)

It is even more important EDBs provide retailers with comprehensive information about the reasons for increases in distribution charges. The Commission could also have a role to play (Flick).³

Consumers need a clear view of the potential impact of changes to retail prices throughout the regulatory period (Mercury).⁴

We support the smoothing approach (draft decision P3) and recommend that the Commission carefully monitors that this is working as intended (EECA)⁵

6. We call for EDBs and retailers to work together, with support from government agencies, on how these changes be more effectively and transparently communicated to all consumers. MEUG has observed varying practices across EDBs when communicating price changes to customers and would support greater consistency in approach.⁶

Further discussion needed on practicability of re-openers

7. The use of re-openers was discussed in depth by many stakeholders. Submissions addressed the potential volume of re-openers that could be sought by EDBs, the need for a smooth, timely yet robust process, the need for a broader level of re-openers to be available, and the need for greater guidance for EDBs. For example:

- Wellington Electricity⁷ outlines the possible number of re-openers that could be sought over the next regulatory period, estimating that the Commission may “*need to process*

² Aurora Energy submission.

³ https://comcom.govt.nz/data/assets/pdf_file/0024/359223/Flick-Electric-Submission-on-EDB-DPP4-draft-decisions-9-July-2024.pdf

⁴ https://comcom.govt.nz/data/assets/pdf_file/0028/359227/Mercury-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

⁵ https://comcom.govt.nz/data/assets/pdf_file/0027/359217/EECA-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

⁶ See MEUG’s submission to the Electricity Authority for greater information, <http://www.meug.co.nz/node/1311>

⁷ https://comcom.govt.nz/data/assets/pdf_file/0028/359209/5BPUBLIC5D-Wellington-Electricity-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

25 – 36 reopens a year depending on the proportion of projects that can be deferred”.

- The BusinessNZ Energy Council (BEC)⁸ recommends that the Commission must provide “assurance to EDBs that reopener applications will be streamlined but the overall process remains robust and transparent to stakeholders, ensuring any amendments to revenue allowances are validated on accurate and tested evidence”
 - Powerco⁹ accepts that “there is a role for flexibility mechanisms to deal with uncertainty, however we encourage the Commission to widen the scope available to accommodate more categories of uncertain opex.”
 - Electricity Networks Aotearoa (ENA)¹⁰ calls for “the Commission, without delay, [to] publish formal and specific guidance on their CPP and reopener application processes, evidence requirements and assessment criteria”
 - Vector¹¹ recommends that, “as a matter of course, the Commission reapply its financeability sense check when considering reopener applications. We do have significant concerns that relying solely on reopeners to address expenditure required outside the price-path may not be workable in practice, given time and workload constraints if the Commission receives multiple applications.”
 - ETNZ¹² observes that “it is not uncommon for EDBs to have large customer connection requests emerge with little prewarning”, highlighting the need for a timely re-opener process to meet consumer needs.
8. We commend the Big Six EDBs on engaging PwC to draft reopener guidelines to assist stakeholders with the re-opener process. This is a positive step that can support further sector discussion and provide light on areas where further clarity may be required. We recommend that the Commission run a workshop on re-openers to develop the required guidance, plus look at the possible need for further reopeners (i.e. for opex).

Stronger focus needed on innovation, demand management and energy efficiency

9. From our review of the submissions, there is a clear drive for greater innovation across the electricity distribution sector and a need for a stronger focus on energy efficiency, smoothing of demand, and optimisation of the existing assets. It is encouraging that many EDBs are up for the challenge (i.e. Powerco) and looking at different ways to meet consumer needs. We observe that:
- ENA¹³ states that “the innovation and non-traditional solution allowance (INTSA) represents a vast improvement over the existing innovation allowance” and therefore is likely to get greater utilisation than the existing mechanisms.
 - Many players call for the level of INTSA (% of MAR) to be increased, including Ecobulb, ETNZ, Powerco, BEC, alongside MEUG.

⁸ https://comcom.govt.nz/_data/assets/pdf_file/0023/359213/Business-Energy-Council-BEC-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

⁹ https://comcom.govt.nz/_data/assets/pdf_file/0032/359285/Powerco-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

¹⁰ https://comcom.govt.nz/_data/assets/pdf_file/0028/359218/Electricity-Networks-Aotearoa-ENA-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

¹¹ https://comcom.govt.nz/_data/assets/pdf_file/0028/359245/Vector-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

¹² https://comcom.govt.nz/_data/assets/pdf_file/0029/359219/Energy-Trusts-of-New-Zealand-ETNZ-Submission-on-EDB-DPP4-draft-decisions-11-July-2024.pdf

¹³ https://comcom.govt.nz/_data/assets/pdf_file/0028/359218/Electricity-Networks-Aotearoa-ENA-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

- Ecobulb¹⁴ believes that “*electricity distribution businesses EDBs should be obligated and incentivised to invest in energy efficiency activities which benefit their residential and commercial customers, as this is an investment in energy efficiency*”. We support this comment.
 - ERANZ¹⁵ believes a focus on “*efficiency and technology can help distributors meet some of their needs at a lower cost than infrastructure upgrades. Technology and innovation should extend to demand management and other services that the market is likely to provide.*” We support moves to manage consumer demand and “flatten the peak” which often drives investment in new infrastructure.
 - EECA¹⁶ observes that “*there is a balance to be struck between EDBs investing directly in distributed flexibility and holding ownership/control, versus encouraging/requiring third parties in this space.*” It is important that all players can be involved in the flexibility market and provide cost-effective options.
 - Fonterra¹⁷ calls for EDBs to “*be encouraged to move customer demand away from system peaks which will deliver a double benefit of eliminating capital spend by both EDBs and Transpower.*”
 - The FlexForum¹⁸ outlines that “*for these activities to become routine we think the proposed DPP needs to do more to encourage and reward distributors for investing in the ambitious and challenging ‘learning-by-doing’ projects needed to enable the electrification of pretty much everything*”.
 - Flick¹⁹ “*looks forward to creating opportunities and working with EDBs to use this funding allowance. Flick suggests the Commission should monitor uptake of this INSTA by EDBs and whether innovation is being adopted at a rate that achieves lower costs for consumers.*” We support the call to monitor update of the INTSA.
10. MEUG is encouraged to see that the Commission is running a workshop specifically on the innovation allowance later this month. This is a positive step to explore the numerous suggestions put forward by stakeholders to improve and optimise the use of the INTSA. We look forward to engaging in this process and what further amendments could be made to inform the Commission’s final decisions.

Disagree with increasing CAPEX cap to 130%

11. Unsurprisingly most EDBs are calling for an increase to the cap on Capex, looking for an increase up to 130 – 135% of historical Capex. EDBs state that this would ensure the necessary investment to meet future demand while ensuring security and reliability of the network, while also reducing the number of reopeners that could be sort.
12. We remain unconvinced that an increase is required and hold our primary view that the Commission should stick to the approach used in prior resets (120%). Like many of the consumer groups that submitted, we have serious concerns about the consumer price impact, the ability of EDBs to deliver the proposed work programme, the need for higher levels of new

¹⁴ https://comcom.govt.nz/_data/assets/pdf_file/0026/359216/Ecobulb-Submission-on-EDB-DPP4-draft-decisions-2-July-2024.pdf

¹⁵ https://comcom.govt.nz/_data/assets/pdf_file/0022/359221/ERANZ-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

¹⁶ https://comcom.govt.nz/_data/assets/pdf_file/0027/359217/EECA-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

¹⁷ https://comcom.govt.nz/_data/assets/pdf_file/0025/359224/Fonterra-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

¹⁸ https://comcom.govt.nz/_data/assets/pdf_file/0023/359222/FlexForum-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

¹⁹ https://comcom.govt.nz/_data/assets/pdf_file/0024/359223/Flick-Electric-Submission-on-EDB-DPP4-draft-decisions-9-July-2024.pdf

build instead of exploring alternative ways to meet/smooth consumer demand, and concerns about EDB productivity.

13. We agree with views raised by the Flexforum and SolarZero about the lack of productivity in the sector. We endorse the recommendation put forward by SolarZero²⁰ that the “*Commerce Commission should look internationally at power systems that have high levels of innovation and productivity. They need to understand what is driving these two factors and then look at what needs to be changed in New Zealand to deliver greater productivity and innovation.*”

Sector agrees that Part 4 regime needs to evolve

14. In our primary submission, MEUG outlined the importance of the Commission working closely with the Electricity Authority and the Ministry of Business, Innovation and Employment (MBIE) to evolve the regulatory framework overseeing EDBs (and Transpower). Several submitters also recommended changes to improve and future proof the regulatory regime:

*In the next Input Methodologies (IM) review, the Commission should consider regulatory design features previously advocated by stakeholders, such as implementing a trailing average cost of debt, to mitigate against significant volatility in the WACC (Vector)*²¹

*The large price increase is also an outcome of the ‘on-the day’ approach used to set the risk-free rate component of WACC. Other regulatory judgements smooth changes in the risk-free rate over time which reduces the likelihood of price shocks like we are currently experiencing. We think this should be a focus area for the future development of the regulatory framework (Wellington Electricity)*²²

*We recommend the Commission reviews the process for setting the WACC. A process that smooths the WACC across longer periods could allow for less volatility over multiple regulatory periods, which could be in the interests of consumers in the long-term (BusinessNZ Energy Council).*²³

We need to have an open conversation about the effectiveness of the Commission’s regulatory tools throughout the energy transition. proposes that the Commission conduct a review after the commencement of DPP4 to assess the effectiveness of its regulatory tools for balancing consumer bill impacts and EDB financial hardship (Mercury)

*We recommend proper cost reflective pricing (including Symmetrical Export Tariffs) should be a prerequisite of any EDB’s reopener being approved (Rewiring Aotearoa)*²⁴

*The Commerce Commission should look internationally at power systems that have high levels of innovation and productivity. They need to understand what is driving these two factors and then look at what needs to be changed in New Zealand to deliver greater productivity and innovation (SolarZero)*²⁵

²⁰ https://comcom.govt.nz/_data/assets/pdf_file/0024/359241/SolarZero-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

²¹ https://comcom.govt.nz/_data/assets/pdf_file/0028/359245/Vector-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

²² https://comcom.govt.nz/_data/assets/pdf_file/0028/359209/5BPUBLIC5D-Wellington-Electricity-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

²³ https://comcom.govt.nz/_data/assets/pdf_file/0023/359213/Business-Energy-Council-BEC-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

²⁴ https://comcom.govt.nz/_data/assets/pdf_file/0023/359240/Rewiring-Aotearoa-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

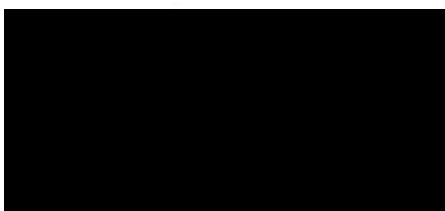
²⁵ https://comcom.govt.nz/_data/assets/pdf_file/0024/359241/SolarZero-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf

15. In addition, the Energy Trusts of New Zealand (ETNZ)²⁶ also provided useful commentary on their experiences with trust owned EDBs. They observed “*differences in decision-making between exempt and non-exempt EDBs and would be happy to facilitate further discussion with the Commission to help inform [them] of these differences.*”
16. Following the conclusion of the DPP4 reset process in November 2024, we strongly encourage the Commission to develop a programme of work to review Part 4 regulation, capturing the wide range of recommendations put forward by both EDBs stakeholders. We strongly believe that an evolution of the regulatory framework is needed to support the energy transition and should be made a priority before the next reset for both EDBs and Transpower.

Next steps

17. MEUG appreciates the engagement that we have had to date with Commission staff and broader stakeholders throughout this DPP4 reset process. We endorse the comments made by Vector²⁷ who acknowledge the “*greater level of engagement with Commissioners during the DPP4 reset process*” and how “*the Commissioners have listened to stakeholders, introducing new ways of engaging including the workshops on innovation, the capex framework and opex step changes*”. We believe this process has led to more productive dialogue on the issues and trade-offs facing the electricity sector and has driven more insightful discussion of the opportunities and improvements needed to best serve the long-term needs of consumers.
18. If you have any questions regarding our cross-submission, please contact MEUG on [REDACTED] or via email at [REDACTED]

Yours sincerely



Karen Boyes
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²⁶ https://comcom.govt.nz/_data/assets/pdf_file/0029/359219/Energy-Trusts-of-New-Zealand-ETNZ-Submission-on-EDB-DPP4-draft-decisions-11-July-2024.pdf

²⁷ https://comcom.govt.nz/_data/assets/pdf_file/0028/359245/Vector-Submission-on-EDB-DPP4-draft-decisions-12-July-2024.pdf