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by email: infrastructure.regulation@comcom.govt.nz
(subject line "Submission on EDB DPP4 reset")

Submission on Default price-quality path issues paper

Thank you for the opportunity to provide feedback on the Commerce Commission's (Commission) Default price-quality paths for electricity distribution businesses from 1 April 2025 Issues paper dated 2 November 2023.

EA Networks has participated in the preparation of an industry response via the Electricity Networks Aotearoa (ENA), and we endorse and support the views presented in that submission.

This submission focuses on areas that have a specific impact for our circumstances – the annual revenue growth cap.

Annual revenue growth cap (question 27)

We acknowledge the Commission's concern regarding price shocks, and the input methodology decision to carve out change in transmission charges from the assessment.

However, a restriction on total revenue is not a good way to manage price shocks, for the following reasons:

Quantity increases are not a price shock. Quantity increases drive revenue increases which count toward the current cap. This, in turn, limits price increases. For example, in our current pricing update, we are forecasting quantity increases of 2.7% (forecast to forecast). Under the 10% cap, this limits our pricing increase to 7.1%, that is: (1 + 10%) / (1 + 2.7%) = (1 + 7.1%).

When a customer increases the quantity of service they purchase, they will not view the higher charge as a price shock. As a simple example, if a customer decides to buy two loaves of bread instead of one, the charge will double, but the customer will not complain about price shock.

Another contribution to higher quantities is new customers, and while the addition of new customers contributes to a revenue increase, existing customers will not view this as a price shock regardless of the magnitude of the increase caused by new customers.

Pricing reform has a much bigger impact. Assessing total revenue to limit price shock does not take account of changes that might be made between pricing categories, or changes to pricing structures. In our experience, and particularly during the current period of pricing reform, we observe that these impacts are of a much greater magnitude than the overall change in revenue.

For example, in periods where the 10% revenue cap has applied for us, our pricing reform has led to price increases for individual customers in excess of 30%. Regardless of the cap applied in the DPP, we have processes, communications and support in place to manage the impact on customers, and the overall cap does not provide any real protection for individual customers.

While the cap is ineffective in its purpose of preventing price shock, it does come with a range of adverse impacts. In particular, it can impact the ability of electricity distribution businesses (EDBs) to raise capital to invest in providing the services that customers want. In terms of cash flow, the impact of the cap is exacerbated by the fact that the catch-up is not provided the following year, but is provided with a two year delay.

It also creates perverse incentives for us when we consider upgrades for new large customers (particularly electrification for decarbonisation). If we know that we are bumping up against the 10% cap, then the prospect of investing for a major decarbonisation upgrade for a specific customer cannot give us any additional revenue (even if anticipated in our capex allowance). We can charge that customer for the enhanced service, but we would then need to reduce prices to other customers, creating price volatility for our wider customer base. Knowing that we might not be able to receive revenue for many years (if the cap applies multiple years in a row), can lead us to instead seek upfront capital payment for decarbonisation upgrades, and this may create a barrier to electrification. We acknowledge the large customer allowance in the IM decisions, but we don't expect many (or any) individual proposals will reach the 1% threshold that will equate to around $500,000 capex for us.

We understand that one of the purposes of the cap is to limit the ability for EDBs to catch up on voluntary under-charging, where a large buffer could be accumulated and applied as a price increase all-in-one-go. We consider that this issue is adequately addressed through the voluntary under-charging limit, and that a further cap on price movement is not warranted.

Separately, we are not aware that there is a real issue that the cap is addressing. EDBs are very cognisant of the impact that charges have on customers, go to considerable effort to signal and smooth price changes, and to engage with their customers on pricing reform.

We also note that the decision to carve out transmission charges from the price cap will actually likely result in a more restrictive cap in years where transmission charges are not increasing. A 10% cap on total revenue movement is much greater than a 10% cap on net distribution revenue.

In light of the above, we submit that the price cap itself be set to a significantly higher level to take account of quantity movements, new customers, and the current inflationary environment (that is, in the order of 30%).

The mechanism can be left in place and instead of a hard limit, the Authority might instead indicate that it would look to reactivate a more binding limit in future reviews if an issue was observed during DDP4.

Concluding remarks

Thank you again for the opportunity to provide feedback. If you have any queries regarding these comments, please feel free to contact me on [redacted] or at [redacted].

[redacted]

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Pricing Manager