



26 January 2024

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Dear Ben

DPPs for EDBs from 1 April 2025 – Issues paper

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's (Commission) consultation paper "*Default price-quality paths for electricity distribution businesses from 1 April 2025 – Issues paper*"¹ ("DPP 4 Issues Paper") published for consultation on 2 November 2023.
2. MEUG members have been consulted on the approach to this cross-submission. Members may lodge separate cross-submissions. This cross-submission does not contain any confidential information and can be published on the Commission's website unaltered.

Key points from MEUG

3. We welcome the opportunity to review and comment on the large number of submissions² received on the DPP4 Issues Paper, with views presented from parties across the entire electricity supply sector. MEUG would like to emphasise the following points:
 - There is a significant level of investment forecast to occur over the next regulatory period, to support increasing electricity demand from the move to greater electrification and meeting New Zealand's decarbonisation goals. Much of the debate is around creating the incentives for EDBs to invest ahead of time to meet forecast demand, and subsequently avoid the consequences of under investment or investing too late.

We believe that there should be a stronger focus on optimising the utilisation of the existing networks and the use of non-traditional solutions, demand management and efficiency, ahead of the drive for increased investment in infrastructure.

¹ [Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2025-Issues-paper-2-November-2023.pdf \(comcom.govt.nz\)](#)

² Total of 40 submissions.

- We believe that the Commission needs to review the settings for supporting innovation, demand-side management and efficiency and encouraging the greater use of non-traditional solutions. From our review of submissions and understanding, there has still been limited uptake of these options. We would like to understand what contribution these solutions could make to assisting regulated EDBs to defer investment to increase network peak capacity. We consider that there is also merit in looking at the investment approaches taken by regulated versus exempt EDBs, with some evidence pointing towards greater incentives and flexibility in consumer owned, exempt EDBs.
 - It is evident that the DPP4 reset will lead to price shocks from 2025 and impact consumer affordability. We believe that greater attention needs to be given to the total increase in electricity costs facing consumers (not just individual components) and how this can be better communicated to consumers.
 - There are several Government workstreams underway by the Electricity Authority and other government departments that will have an impact on EDBs' expenditure and their approaches to investment across the next regulatory period. We request greater clarity around how these programmes of work are being coordinated and how the relevant policy decisions are to be factored into the Commission's decisions.
 - There seems to be general support for maintaining the existing quality standards for regulated EDBs. We consider this wise given the magnitude of other issues being considered through the DPP4 reset.
 - There is a strong demand and willingness from the sector to engage with the Commission through workshops and meetings, ahead of the release of the DPP4 draft decision. We encourage the Commission to consider whether two workshops will suffice or are there other avenues needed to progress discussions on the issues raised in submissions and cross-submissions.
4. We expand on these points below and would welcome the opportunity to discuss these comments with Commission staff, alongside the sector workshops planned for February 2024.

Optimising the network, ahead of investing in infrastructure

5. All stakeholders agree that electricity distribution networks will play an important role enabling the greater electrification of our economy and supporting New Zealand's decarbonisation goals. However, much of the debate focuses on the need for EDBs to invest ahead of time to meet the significant forecast lift in demand, and subsequently avoid the consequences of under-investment. EDBs provide useful insights to demonstrate their concerns:
- Wellington Electricity³ notes that "*many networks built in 50s / 60s don't have capacity to meet expected increase in demand*" and state that if EDBs can't build capacity in time, this will impact decarbonisation goals, and risk maintaining a secure electricity supply.
 - Aurora Energy⁴ state that it is their view that "*the consequences of under investment, or investing too late, far outweigh the impacts of investing in network infrastructure too early.*"

³ Wellington Electricity submission, https://comcom.govt.nz/data/assets/pdf_file/0033/339792/Wellington-Electricity-DPP4-issues-paper-submission-19-December-2023.pdf

⁴ Aurora Energy submission, https://comcom.govt.nz/data/assets/pdf_file/0035/339758/Aurora-Energy-DPP4-Issues-paper-submission-19-December-2023.pdf

- Powerco⁵ discusses the change in environment they are facing, observing that *“there is a need to start the investment and building process earlier than historical approaches. This reflects aspects of longer delivery times, staying ahead of the delivery peak (potentially 3 times the current rate), and managing the speed of uptake and intrinsic uncertainty associated with it. Perhaps, most importantly, it reflects a need to ensure we do not thwart customer decarbonisation aspirations by late delivery of electricity system capacity.”*
 - Infrastructure New Zealand⁶ observes how *“network upgrades take time and need to be staged carefully to maintain an electricity supply to existing connections. It is critical therefore, for EDBs to upgrade their networks ahead of the increase in demand, to support that future growth.”*
6. This has driven considerable discussion and focus on how the Commission’s price-quality framework needs to adjust to the changing circumstances EDBs will face over DPP4. For example:
- *“Enabling agile in-period adjustments as circumstances evolve will allow EDBs and the Commission to navigate the changing landscape more effectively. It also provides the Commission the capability to exclude expenditures from the price path when the timing or extent of investment is uncertain, safeguarding consumers from the risk of incurring unnecessary cost”* (Powerco)
 - ENA note that the *“uncertainty over the timing and scale of expenditure needed to facilitate decarbonisation will demand that EDB capex programmes be nimbler and more responsive.”*
7. While we believe that there is merit in looking at how the price-quality framework can evolve to support this level of change,⁷ **we encourage a stronger focus on greater utilization of the network and the use of innovation, demand side management and efficiency to meet consumer needs.** We support views raised by stakeholders who have noted the alternative ways to meet consumer demand.
- The Association of Independent Generators⁸ state that the Commission should focus on *“how EDBs can be encouraged to increase the capacity utilisation of existing assets. The load factor across the sector is ~59% on average over a year”*. Powerco similarly note that *“maximising asset utilisation without unduly increasing risk exposure, is imperative to reduce whole-of-system costs and deliver better consumer outcomes.”*
 - SolarZero⁹ outlines why it is critical to have IAEngg (Commission’s independent advisors) consider *“optimisation, non-network network solutions and what efficiencies could be gained through having better data and information, particularly at the LV level.”* It observes how the *“industry is racing towards creating a very expensive power system and the Commerce Commission, together with the Electricity Authority, EECA and MBIE need to work with the industry to get it onto a different track.”*

⁵ Powerco submission, https://comcom.govt.nz/data/assets/pdf_file/0030/339771/PowerCo-DPP4-issues-paper-submission-19-December-2023.pdf

⁶ Infrastructure New Zealand, https://comcom.govt.nz/data/assets/pdf_file/0037/339796/Infrastructure-New-Zealand-INZ-DPP4-issues-paper-submission-15-December-2023.pdf

⁷For example, there may be merit in looking at the capital expenditure allowances are managed under Transpower’s regime, and whether this could be applied to EDBs (as suggested by ENA).

⁸ Independent Electricity Generators Association (IEGA) submission, https://comcom.govt.nz/data/assets/pdf_file/0036/339795/Independent-Electricity-Generators-Association-IEGA-NZ-DPP4-issues-paper-submission-19-December-2023.pdf

- ERANZ¹⁰ outlines how technology can help EDBs meet demand, often at a lower cost than infrastructure upgrades. ERANZ also encourage EDBs to go out to market more often to look for solutions, rather than rely on inhouse engineering departments.
8. Submissions clearly state the benefits that are possible from the use of innovation, demand side management and efficiency to meet consumer needs, with discussion also on the benefits of better data utilization. There appears to be support from the wider sector for action in this space. However, the regulatory settings don't seem sufficient to encourage this:
- Merdian¹¹ states that innovative network solutions are not being considered or adopted in practice by many EDBs, and there have been very few applications for the Innovation Project Allowance. It recommends that the Commission needs to use its information gathering powers to understand what the barriers in this space are.
 - ENA outlines that while the DPP3 innovation allowance was well-intentioned, this has not translated into a workable mechanism that facilitates innovation. ENA usefully refers to innovation schemes and funds in other jurisdictions, such as the work by Ofgem in the UK, that has been more effective in driving change.
 - Orion outline their frustration that they have not been able to access the Innovation Allowance during DPP3 for DER management or non-traditional solutions.
9. MEUG agrees with these concerns and notes that the Commission also needs to look at:
- How the current treatment of assets entering the Regulated Asset Base (RAB) may unduly incentivise the selection of capital expenditure over non-traditional solutions. The Association of Independent Generators also noted it surprise that “assets can stay in RAB even when physically stranded” and therefore what incentives do EDBs have to look for other options.
 - How support for EDBs deploying non-tradition solutions may impact this emerging market. We note that Contact Energy¹² has suggested another principle for the Commission's consideration of innovation and non--traditional solutions – *whether innovation projects could be offered by non-regulated parties*. The Association of Independent Generators has also stated that “*if the Commission decides to incentivise EDBs to initiate more DSM activity, this activity must be contestable with the incentives applying to all activities that reduce peak demand on the distribution network – such as distributed generation generating during periods of peak demand.*” Decisions taken by the Commission in this space could adversely affect competitive unregulated markets for demand-side and non-traditional solutions.
10. We support the sectors call for more discussion on innovation measures and how these can help incentivise the type of change sought in the sector. We understand one of the Commission's February workshops is focused on this topic. We consider that more than one workshop may be required, to continue to refine solutions in this space.

¹⁰ ERANZ submission, https://comcom.govt.nz/data/assets/pdf_file/0029/339752/Electricity-Retailers-Association-of-New-Zealand-ERANZ-DPP4-issues-paper-15-December-2023.pdf

¹¹ Merdian Energy submission, https://comcom.govt.nz/data/assets/pdf_file/0036/339768/Meridian-Energy-Ltd-DPP4-issues-paper-submission-15-December-2023.pdf

¹² Contact Energy submission, https://comcom.govt.nz/data/assets/pdf_file/0028/339760/Contact-Energy-DPP4-issues-paper-submission-15-December-2023.pdf

Difference in settings between exempt and non-exempt EDBs

11. Submissions by exempt EDBs such as PowerNet and Countries have provided some useful insight into the different operating practices and approaches taken by exempt, consumer owned EDBs. For example, PowerNet state that:

“It is explicitly clear to us that the settings for exempt EDBs are more conducive to meeting the needs of customers and the goals of decarbonising and electrifying the New Zealand economy.

We are very concerned that the Commission will put too much pressure on DPP4 capex and opex allowances that will have a relatively small impact on reset revenue and a material impact on EDB’s ability to manage DPP4 quality.”

12. This is concerning and not the first time that this sentiment has been mentioned. We encourage the Commission to review the investment approaches taken by regulated versus exempt EDBs, given the evidence pointing towards greater incentives and flexibility in consumer owned, exempt EDBs. MEUG supports all EDBs providing a relatively level playing field for its consumers and supporting greater electrification and demand growth across the country.

Learnings from Fibre regulations

13. Mercury¹³ has usefully raised discussion about the regulatory framework that has been applied to fibre businesses and how this should be considered by the Commission when they look at settings for the DPP4 reset.

“The Commission has addressed analogous economic issues – i.e. where network investment is made under conditions of higher uncertainty and ahead of demand – in case of price-quality regulation of Chorus’ regulated asset base under Part 6 of the Telecommunications Act 2001. As a part of the Government’s ultrafast broadband initiative, local fiber companies, including Chorus, were required to deploy a fiber access network to meet specified deployment targets that were ahead of demand. Furthermore, the price of wholesale services for access to Chorus’ fiber network were capped at levels agreed between Chorus and the government.

14. MEUG would welcome discussion on what learnings could be taken from fibre regulations and considered for application to the regulation of electricity distribution networks.

Managing price shocks and consumer affordability

15. Electricity Networks Aotearoa (ENA) ¹⁴ summarises the views of many stakeholders succinctly when it states that *“managing consumer price shocks will be the most pivotal component of DPP4.”* This DPP reset will see a significant increase in revenue allowances for regulated EDBs, in comparison to prior resets. ENA has quantified this increase, outlining that the *“the uplift in the building block allowable revenue (BBAR) for all non-exempt EDBs is expected to be more than 30% higher than the 2024 revenues set under DPP3”*.
16. EDBs are well aware of the impact of these price increases, with Wellington Electricity, ¹⁵ for example noting that the *“perception of investing while prices are increasing will have to be carefully managed”*, recognising the importance of maintaining social license with its

¹³ Mercury submission, https://comcom.govt.nz/data/assets/pdf_file/0035/339767/Mercury-DPP4-issues-paper-submission-19-December-2023.pdf

¹⁴ ENA submission, https://comcom.govt.nz/data/assets/pdf_file/0028/339751/Electricity-Networks-Aotearoa-ENA-DPP4-issues-paper-submission--19-December-2023.pdf

¹⁵ Wellington Electricity submission, https://comcom.govt.nz/data/assets/pdf_file/0033/339792/Wellington-Electricity-DPP4-issues-paper-submission-19-December-2023.pdf

community. ENA¹⁶ also notes that much of the price increases arise from “*exogenous inputs in a high inflation environment: These exogenous changes will result in a direct and significant uplift in the value of EDBs regulated asset bases and the WACC used for DPP4.*” Many EDBs talk about the importance of smoothing as a tool to assist consumers. We agree that smoothing is one tool to help manage price shock.

17. Given price increases of this magnitude, it is unsurprising that many stakeholders are requesting that the Commission better define what constitutes a “price shock”, before making the trade-off around the need for investment and ensuring the EDBs earn a fair return (i.e. the FCM principle).
 - For example, Contact Energy¹⁷ encourages the “*Commission to do further work on defining a price shock (beyond prior 10% +CPI threshold)*”, while noting that they support a 10% + CPI on revenue, rather than per user or per unit measures.
 - Vector¹⁸ states that the “*Commission must not self-determine what would be considered a price shock to consumers. It is important to examine price shocks in the context of the household budget and what can (and has) occur(red) in workable competitive markets (e.g. mortgage rate increases, grocery bill inflation, petrol price volatility post Ukraine invasion etc). The proportion of household expenditure on electricity, relative to other expenditures, is highly relevant.*”
18. Parties have also raised questions about how DPP4 decisions are passed through to end consumers by retailers. Electric Kiwi¹⁹ stated its concerns around the extent that network price reductions from DPP3 were passed through by retailers.
19. MEUG would welcome further discussion and workshops with the Commission and stakeholders to discuss the issue of price shock and cost pass-through, and what tools the Commission have available to address these issues.

Communicating the change to consumers

20. Many parties have also called for the Commission to improve how DPP decisions and the resulting price changes are communicated to consumers:
 - “*We believe that EDBs or the Commission will need to develop a new capability to consult with customers about their quality preferences*” (Wellington Electricity²⁰)
 - “*We welcome the Commission’s focus on providing clearer information on likely price impact*” (Consumer Advocacy Council)²¹
 - ERANZ²² supports the Commission’s desire to communicate the drivers and causes of increasing costs flowing through as bill increases to consumers – “*the earlier they start this the better*”.

¹⁶ https://comcom.govt.nz/data/assets/pdf_file/0028/339751/Electricity-Networks-Aotearoa-ENA-DPP4-issues-paper-submission--19-December-2023.pdf

¹⁷ Contact Energy submission, https://comcom.govt.nz/data/assets/pdf_file/0028/339760/Contact-Energy-DPP4-issues-paper-submission-15-December-2023.pdf

¹⁸ Vector primary submission, https://comcom.govt.nz/data/assets/pdf_file/0038/339779/Vector-DPP4-issues-paper-submission-19-December-2023.pdf

¹⁹ Electric Kiwi submission, https://comcom.govt.nz/data/assets/pdf_file/0027/339750/Electric-Kiwi-DPP4-issues-paper-submission-14-December-2023.pdf

²⁰ Wellington Electricity submission, https://comcom.govt.nz/data/assets/pdf_file/0033/339792/Wellington-Electricity-DPP4-issues-paper-submission-19-December-2023.pdf

²¹ Consumer Advocacy Council submission, https://comcom.govt.nz/data/assets/pdf_file/0036/339759/Consumer-Advocacy-Council-DPP4-Issues-paper-submission-19-December-2023.pdf

²² ERANZ submission, https://comcom.govt.nz/data/assets/pdf_file/0029/339752/Electricity-Retailers-Association-of-New-Zealand-ERANZ-DPP4-issues-paper-15-December-2023.pdf

- *“It is important that the Commission helps consumers to understand what is driving price increases”* The Commission need to communicate effectively and in advance, also support smoothing to avoid price shock (Meridian²³)
21. MEUG agrees that improvements can be made across the sector in communicating price increases to consumers. While measures such as the Commission’s waterfall graphs can be useful for informed stakeholders, we consider a more “plain-English” and simple approach is needed to get greater public engagement and understanding. We are happy to share our thoughts on what could be done in this space.

Importance of considering the overall electricity price facing consumers

22. Many parties shared our concern that alongside the forecast increases in distribution charges, there will also be significant increases in the total electricity price that consumers face, through increases in other components such as transmission charges and the wholesale electricity price. We agree with Mercury²⁴ that we *“need an open conversation about how retail prices may change through the energy transition”* and MEUG agrees that *“there is no single view of how these decisions might come together and impact in total on retail prices”*.
23. There was also discussion in the submissions about how much the Commission can do to address price shocks (given its role and mandate), and whether energy hardship / affordability issues are better addressed by other government agencies (as raised by Meridian and Vector). We believe that this conversation may best be driven by the Ministry of Business, Innovation and Employment (MBIE) as part of work developing an Energy Strategy for New Zealand. This has been noted in prior MEUG submissions on both DPP4 and decisions for Transpower’s upcoming investment.

Interaction with other government work programmes

24. There are several other work programmes or policy discussions underway in Government that have the potential to impact the level of investment and expenditure that EDBs need to make in the coming regulatory period and the price impact for consumers. For example,
- Electricity Networks Aotearoa notes²⁵ that *“policymakers and the Electricity Authority are currently scrutinizing EDBs’ approaches to capital contributions. One of the options being considered is the capping of upfront contributions. Any cap would shift the cost from the beneficiary and causer of this expenditure onto existing customers who do not benefit from it. This would add to future price increases for existing consumers.”* The Electricity Authority’s work around distribution connection pricing and practices was also mentioned by several individual EDBs,²⁶ who provided examples of how this could impact expenditure during DPP4 and results for EDBs through the IRIS.
 - Several parties²⁷ mentioned the Government’s work around resilience, such as the possible impact of the National Adaptation Plan and the Electricity Authority’s Future Security and Resilience (FSR) project on resilience. Powerco notes that *“if the ongoing policy reviews lead to changes in standards, resilience levels, or processes, deviating from current best practices and ISO standards, it may*

²³ Meridian Energy submission, https://comcom.govt.nz/data/assets/pdf_file/0036/339768/Meridian-Energy-Ltd-DPP4-issues-paper-submission-15-December-2023.pdf

²⁴ Mercury submission, https://comcom.govt.nz/data/assets/pdf_file/0035/339767/Mercury-DPP4-issues-paper-submission-19-December-2023.pdf

²⁵ ENA submission, https://comcom.govt.nz/data/assets/pdf_file/0028/339751/Electricity-Networks-Aotearoa-ENA-DPP4-issues-paper-submission--19-December-2023.pdf

²⁶ For example, Orion, Powerco and Vector.

²⁷ Orion submission, https://comcom.govt.nz/data/assets/pdf_file/0029/339770/Orion-New-Zealand-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf

necessitate the revision of EDBs forecasts/allowances.”

- Mercury²⁸ also discusses the sector’s work on the development of Energy Transition Framework, which has involved several EDBs to date.
25. MEUG requests greater clarity on how these programmes of work are being coordinated across Government and how any relevant policy decisions are to be factored into the Commission’s decisions for this DPP (or future periods). We appreciate that the Council of Energy Regulators²⁹ is intended to address coordination issues such as this and take a whole-of-system approach; however, there is limited transparency of what it discussed by the Council. Consumers need to be assured that the different arms of Government are working together to provide the best outputs for consumers, and there is no necessary conflict or duplication from different work programmes.

General support for staying with existing quality measures

26. There seems to be general support for maintaining the existing quality standards for regulated EDBs. For example, ENA states that *“there is no evidence of a desire from consumers to alter the level of service delivered by EDBs. Therefore, ENA is of the view that the current regime comprising of planned and unplanned SAIDI and SAIDI metrics should be maintained.”*³⁰ Transpower³¹ also states that it agrees with maintaining the current service levels.
27. We consider that maintaining the existing quality standards is a sensible decision, given the magnitude of other issues being considered through the DPP4 reset. Use of consistent quality standards overtime is also important to enable the Commission and stakeholders to understand trends in performance, both at the sector-wide and individual network level.

Additional areas for comment

28. MEUG would also like to make comments on the following issues that were discussed in submissions:
- We support calls from Infrastructure New Zealand³² for a **standardised approach to addressing first mover disadvantage** on the networks. This is a concern for MEUG members who operate over many different distribution networks. This may require coordination between the Electricity Authority and the Commission to address this issue.
 - **Deliverability risk:** The ability for EDBs to effectively deliver the scale of investment forecast for the coming regulatory period is a concern for MEUG, which we raised in our first submission. It was helpful to review the information that Transpower, PowerNet and Powerco provided to illustrate how they are approaching this issue.

²⁸ Mercury submission, https://comcom.govt.nz/data/assets/pdf_file/0035/339767/Mercury-DPP4-issues-paper-submission-19-December-2023.pdf

²⁹ <https://www.ea.govt.nz/about-us/what-we-do/our-work-with-other-orgs/#:~:text=Council%20of%20Energy%20Regulators,-We%20are%20part&text=The%20Council%20facilitates%20a%20whole,the%20energy%20markets%20regulatory%20system>.³⁰ ENA submission, https://comcom.govt.nz/data/assets/pdf_file/0028/339751/Electricity-Networks-Aotearoa-ENA-DPP4-issues-paper-submission--19-December-2023.pdf

³¹ Transpower submission, https://comcom.govt.nz/data/assets/pdf_file/0035/339776/Transpower-DPP4-issues-paper-submission-19-December-2023.pdf

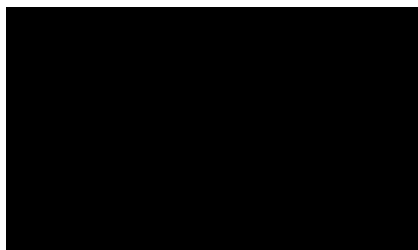
³² Infrastructure New Zealand submission, https://comcom.govt.nz/data/assets/pdf_file/0037/339796/Infrastructure-New-Zealand-INZ-DPP4-issues-paper-submission-15-December-2023.pdf

- **Cyber security expenditure.** ENA³³ note that “*over the past 5 years, the cost of implementing and maintaining best practice cyber security controls has more than doubled for EDBs, and these costs are likely to double again over the next 5 years.*” Alongside this overall increase, there also seems to be a large variation in the expenditure sought by different EDBs. MEUG recommends that the Commission review this area of expenditure with some scrutiny, to ensure consumers are getting value for money, and to consider whether an allowance per ICP may be a more suitable way to set expenditures allowances in this area.

Next steps

29. We look forward to engaging with the Commission, EDBs and other stakeholders at the upcoming workshops. If you have any questions regarding our submission, please contact MEUG on [REDACTED] or via email at [REDACTED].

Yours sincerely



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Major Electricity Users' Group

³³ ENA submission, https://comcom.govt.nz/data/assets/pdf_file/0028/339751/Electricity-Networks-Aotearoa-ENA-DPP4-issues-paper-submission--19-December-2023.pdf