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Infrastructure New Zealand's Submission on the Commerce Commission's 2025 reset of the electricity default price-quality path (DPP4)

Tēnā koutou

Introduction

1 Infrastructure New Zealand (INZ) welcomes this opportunity to make a submission on the reset of the electricity default price-quality path. We recognise the importance of these regulatory levers in managing the parameters that electricity distribution networks operate within.

2 INZ is New Zealand's membership organisation for the infrastructure sector. We promote best practice in national infrastructure development through research, advocacy, and public and private sector collaboration. Our members come from diverse sectors across New Zealand and include infrastructure service providers, investors, and operators.

3 While INZ submits as New Zealand's leading infrastructure sector organisation, our members may make their own submissions raising those issues specific to their areas of interest or expertise.

4 We have prepared this response to the Commerce Commissions 2025 reset of the electricity default price-quality path issues paper, with high-level, principle-based comments, rather than commenting on specific, technical features of the issues paper.

General remarks

5 Electricity Distribution Businesses (EDBs) play a critical role in supporting the transition of the economy away from fossil fuel energy sources. Investment in networks requires a delicate and deliberate balance between keeping costs down for consumers, while ensuring that networks are resilient, reliable, and can harness the benefits of emerging technologies and opportunities.

Enabling EDBs to invest efficiently

6 EDBs are facing an unprecedented suite of challenges, with a rapidly changing market for electricity and an increasing reliance on electricity as a primary fuel source as well as changing weather patterns putting pressure on infrastructure and affecting system resilience. We recommend creating a more permissible environment for developing network infrastructure, by increasing the costs that they can charge to consumers.

The volume and profile of electricity demand is changing

7 As demand for electricity increases, so too do the risks of increasing peaks in demand, thereby putting pressure on distribution networks. Winter 2021 saw two record peaks being recorded in July and August[1]. Without a change in approach, those peaks are likely to keep increasing, putting ever more pressure on distribution networks, as well as generation assets and transmission.

8 The costs of increasing peak electricity demand, and the pressure on the grid and distribution networks are well canvassed, and the consequences of having inadequate infrastructure during these peaks could be a significant reduction in service during winter peaks.

9 As the electric vehicle fleet increases, and users respond to time-based price signals from their energy retailers, it is likely that the demand profile will shift again, and we may see peaks emerge at different times of the day. This changing demand profile puts pressure on the networks and their operators in managing the supply of electricity.

[1] Energy in New Zealand 2022 (mbie.govt.nz)

Emerging technologies offer opportunities

10 New technologies, or emerging trends like distributed generation, residential demand response, and stationary batteries offer an opportunity to help smooth demand spikes and relieve pressure on local networks.

11 In many cases, however, there is a mismatch between benefits and costs. For example, consumers with fixed tariff pricing do not benefit from load-shifting, like running their dishwasher or charging their car at off-peak times but encounter the inconvenience of that load shift. Furthermore, EDBs, who are likely to be one of the primary beneficiaries of load-shifting, have few levers to encourage it.

12 To the extent possible, we should empower EDBs to harness emerging opportunities and trends to manage consumption profiles, and the effect on the networks that they manage. This could come through factors outside of the DPP4 exercise, like time-based lines charges.

Extreme weather events are putting more pressure on networks

13 Recent weather events are a reminder how much our climate is changing, and how vulnerable our critical infrastructure is. These weather events are going to increase in frequency and severity, putting further pressure on already strained infrastructure across the country.

14 Resilience upgrades do not come cheap though – they require methodical identification of risk and planning, prioritisation, and implementation over a long period of time – which all comes at a cost. EDBs can only make these expensive upgrades to their networks if they are empowered to do so. This now needs to be a critical consideration going forward.

Reliable electricity supply is essential for decarbonisation

15 For households, electricity is a natural energy source to transition to for transport, and home and water heating, while for industrial consumers, heat pumps are becoming increasingly common for process heat. These are positive steps to support the transition to a low carbon economy and should be encouraged.

16 Reliable electricity supply across the distribution networks is essential for helping make the transition to electricity attractive, and empowering EDBs to invest in their networks is critical.

Infrastructure development takes time

17 Demand for electricity is forecast to keep rising, which will put further pressure on distribution networks. Furthermore, 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. This involves working with customers to identify potential demand and development and supporting this as part of the new business as normal. Two-way tariffs and the integration of this into the market charges could be part of this work.

Total household energy costs are expected to fall as we electrify

18 As households transition away from fossil fuels for transport, and water and spatial heating, total household energy cases are expected to decrease, despite an expected increase in the cost of electricity. This observation stresses the

need to support the whole country to invest in electric transport and heating sources, and to build the supporting electricity infrastructure to enable that transition to happen efficiently.

Therefore, we suggest the Commerce Commission prioritises network development over managing price increases

19 There is an enormous volume of investment required in electricity network infrastructure to:

a support increasing demand, with changing demand profiles,

b give confidence to consumers that their electricity supply is reliable and affordable, and

c build greater resilience into the electricity market, extreme weather events worsen.

20 Therefore, we recommend creating a more permissive investment environment for EDBs, by increasing the prices that they can charge to consumers, for the purposes of network upgrades. While we acknowledge that this will have a negative impact on household budgets, we consider that the missed opportunity in not investing in the required network infrastructure to be too great to miss, and that wider government policy can be used to address household income challenges.

Other specific issues

Managing first mover disadvantage for new connections

21 We are aware of some challenges presenting in new electricity users connecting to networks, whereby the cost of the network upgrade is largely borne by the first mover. That situation creates a free-riding risk where other users nearby can connect to the network at much lower cost. With the development of public chargers for electric vehicles, for example, these new connections are likely to increase in volume.

22 While we are aware some EDBs have developed an approach to this which reimburses the original connectors from subsequent connection charges, we are aware that this is not an industry norm. However, it is as aspect that would benefit from an agreed national approach as it is a current barrier to decarbonisation development and network growth. We would welcome consideration of a standardised approach, to the extent possible, under DPP4, for example in allocated operational expenditure.

Conclusion

23 INZ thanks the Commerce Commission for this opportunity to submit and looks forward to continuing to engage with the Commission on electricity pricing into the future.

Infrastructure New Zealand

24 Investment in electricity infrastructure requires a delicate and deliberate approach to balancing cost to consumers and ensuring that networks are resilient, reliable, and can harness the benefits of emerging technologies and opportunities.

25 We encourage the Commission to prioritise much needed investment in electricity infrastructure, and to let wider government policy address the equity implications that come with elevated prices.

Yours Sincerely

Ngā mihi nui

[redacted]

Michelle McCormick
Policy Director