POWERCO

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Commerce Commission
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Tēnā koe,

EDB productivity study draft report implications for the DPP4 setting process

Powerco Limited (Powerco) welcomes the opportunity to provide feedback on CEPA's EDB productivity study draft report, the first phase in the Commerce Commission's (Commission's) productivity and efficiency review. Powerco is one of Aotearoa's largest gas and electricity distributors, supplying around 357,000 (electricity) and 114,000 (gas) urban and rural homes and businesses in the North Island. These energy networks provide essential services to around 1 million kiwis and will be core to Aotearoa achieving a net-zero economy by 2050.

This work is of relevance to us as it may be relied on by the Commission when it sets the DPP4 allowances. Our submission reflects this by focusing on those points relevant to DPP4 regulatory settings. We have not repeated points made by NERA as part of the Big 6 submission or by the ENA. Our views on the study draft and the Commission's use of it are set out in the following.

Care needs to be taken when interpreting and applying productivity adjustments

- CEPA acknowledges that services provided as part of the energy transition aren't captured in their measure of productivity.[1] Given the nature and scope of services provided by EDBs are changing, care is required when using historical productivity. These backward-looking metrics are based on a different set of services compared to those that will be provided by EDBs during the energy transition. Therefore, they may not be a good predictor of future EDB productivity.
- The Commission should avoid putting unrealistic productivity expectations on EDBs that impact incentives to invest in the energy transition. Not being able to invest in the energy transition, or having to make inefficient trade-offs to keep to allowances, will ultimately come at a cost to the consumers over the long term.
- The Commission should instead focus on ensuring that the right incentives are in place and investment decisions are efficient.

[1] CEPA, EDB productivity study draft report March 2024, at 2.3.5

Incentives need to be right given we are in a period of growth and transition	• It's important that EDBs are incentivised to deliver efficient outputs valued by customers and that regulatory settings ensure we are able to invest ahead of demand and respond to the changing needs and preferences of consumers. • Measures of productivity don't appear to account for lagged output impacts. For example, investment in resilience and climate change adaptation now to ensure reliability output improvement if the next natural disaster occurs. The effects and benefits of these investments may only materialise later, leading to a potential underestimation of productivity. • This is particularly important given the changes facing the sector which will require investment ahead of demand, and it may take time for outputs to catch up with their associated inputs. Any productivity adjustments (if any) need to take this into account.

We look forward to further engaging with the Commission as it progresses its comparative efficiency analysis and performance assessment in due course. If you have any questions regarding this submission or would like to talk further on the points we have raised, please contact Emma Wilson [redacted]

Nāku noa, nā,

Emma Wilson

[redacted]

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POWERCO