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## **SUBMISSION ON THE ISSUES PAPER: DEFAULT PRICE-QUALITY PATHS FOR ELECTRICITY DISTRIBUTION BUSINESSES FROM 1 APRIL 2025**

The Electricity Retailers' Association of New Zealand ('ERANZ') welcomes the opportunity to provide feedback on the Commerce Commission's issues paper, *Default Price-Path for Electricity Distribution Businesses from 1 April 2025*.

ERANZ is the industry association representing companies that sell electricity to Kiwi households and businesses. Our members supply almost 90 per cent of New Zealand's electricity. We work for a competitive, fair, and sustainable electricity market that benefits consumers.

### **Executive summary**

ERANZ understands the challenges the Commerce Commission has in replacing the default price quality path for electricity distribution businesses (DPP3) which is due to expire on 31 March 2025.

ERANZ is particularly concerned about the likely effects of DPP4 on consumers. Even among the other drivers of industry costs, this decision is likely to have the most impact on ultimate consumer prices. ERANZ agrees with the Commission's summary of the challenge and need to consider consumers' interests.

*"We are setting DPP4 in the context of an energy transition to increased electrification, climate change impacts, high inflation, and significant cost pressures facing both EDBs and consumers. This Issues paper discusses this context in more detail, as well as the issues we consider relevant to DPP4 and the ways we propose to apply our tools within the DPP to promote the long-term benefit of consumers."*

Having said that, ERANZ considers the best long-term interest of consumers are served by the Commission completing its work and developing the DPP4 recommendations to the best of its abilities as required by law. Should the consumer bill impacts end up so significant as to require policy interventions, then these interventions should be developed separately by the appropriate policy makers in government. ERANZ supports the fundamental underpinnings of New Zealand's market-based regime for electricity supply and regulation.



Therefore, ERANZ encourages the Commission to keep communicating and explaining its decision-making process to the public in a way they can understand. In particular, noting the Commission's process going forward, ERANZ proposes that the Commission hold an issues-based workshop before the end of March 2024 where the issues regarding the risks of undue financial hardship and price shocks to consumers can be addressed. A concerted communications effort from the Commission, along with other government agencies, will contribute towards greater consumer understanding, and therefore preparation, for the coming price impacts.

## **Submission points**

### **Impact on consumers**

ERANZ agrees with the Commission's assessment that the context for electricity consumers is changing. Over the past 15 years, households have benefited from declining electricity bills in real terms. Average household bills have gone from \$2,261 in 2008 to \$2,213 in 2023, a decline of 2.1% in real terms. But we are entering a pivot point where the costs of an economy-wide transition to predominantly renewable electricity coincides with the costs discussed in this document.

Combined, such costs will put pressure on consumers and the Commission is right to have close consideration for how it can manage these bill shocks within the workings of the regime. Any revenue increases for distributors will ultimately end up being passed on to consumers.

All this is in the context of both consumer and policymakers' rising expectations of security of supply – and could rise further following reviews of the Cyclone Gabrielle event.

### **Mitigation through communication**

Electricity billing is complicated, and it is challenging for the public to understand the different component parts of their bill. Therefore, ERANZ supports the Commission's desire to communicate the drivers and causes of increasing costs flowing through as bill increases to consumers. The Commission, as an independent government regulator, has a reputation for neutrality and therefore is a credible voice for explaining their role.

The earlier the Commission starts to communicate the likely impacts of DPP4 to the public, the earlier consumers can start to prepare. In addition, this communication to the public can start a conversation about the need for mitigating policies which, if required, will take time to develop and implement – again, the sooner this process can begin the better.

### **Trade offs**

The Commission is right to invest resources into its consideration of the key issue of bill shock versus incentive for distributors to invest. This is the critical trade-off that the regulator needs to get right for the coming five-year regulatory period. Getting such a decision wrong may result in declining consumer confidence for the energy transition because it is either too expensive (bill shocks) or the network cannot deliver (failure to invest).

Having said this, ERANZ firmly supports the current market structures because they have been

proven to deliver the best long-term outcomes for consumers. Oversight from the Commission and the Electricity Authority provides ongoing monitoring to ensure the smooth functioning of the market and provides an environment where developments and innovation can benefit consumers. Continual improvements are always necessary, but ERANZ favours optimising the current structures over attempting major reforms.

### **Using technology**

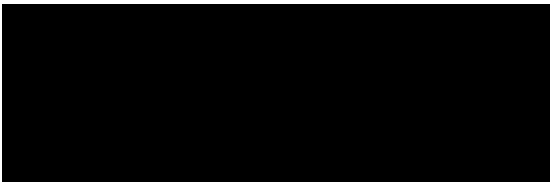
Focusing on efficiency and technology can help distributors meet some of their needs at a lower cost than infrastructure upgrades. Technology and innovation should extend to demand management and other services that the market is likely to provide. Therefore, the Commission should encourage innovation, although distributors should be encouraged to go to market for solutions, not solely in-house design.

### **Conclusion**

ERANZ would like to thank the Commerce Commission for its work on distribution regulation. We are happy to provide any further information on this submission as needed.

ERANZ looks forward to engaging with officials further as the Commerce Commission works towards finalising the DPP4.

Yours sincerely



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