Major Electricity Users' Group

Promoting a robust electricity market

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Sent via email: infrastructure.regulation@comcom.govt.nz

Dear Ben

DPPs for EDBs from 1 April 2025 – Issues paper

1. This is a 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] ("Issues Paper") published for consultation on 2 November 2023.

2. In addition to our submission, we have provided a report from the New Zealand Institute of Economic Research (NZIER) "*EDB Default Price-Quality Path: Comment on 2023 Issues Paper*" dated 14 December 2023 in **Appendix A**. The NZIER report answers several of the consultation questions specifically raised in the Issues Paper.

3. MEUG members have been consulted on the approach to this submission. Members may lodge separate submissions. This submission does not contain any confidential information and can be published on the Commission's website unaltered.

Supporting investment while managing affordability for consumers

4. To enable the level of new electricity generation forecast to enter the market and to meet the increasing demand for electricity as we transition to a lower-emissions economy, significant investment is required in the distribution networks run by the 27 electricity distribution businesses (EDBs).[2] The scale of this investment has been discussed by many stakeholders, notably the Boston Consulting Group (BCG) who have estimated that:

> *$22 billion in distribution infrastructure [is required] to enable electrification in the 2020s and prepare networks for rapid electrification and multi-directional flows of electricity in the 2030s.*

[1] https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-lines-price-quality-paths/electricity-lines-default-price-quality-path/2025-reset-of-the-electricity-default-price-quality-path?target=documents&root=332943
[2] And the transmission network owned and operated by Transpower.

Total investment needed in 2026–2030 is forecast to be 30% higher than 2021–2025.

5. The Commission's reset of the Default Price-Quality Path (DPP) for the 16 regulated EDBs for the 2025 – 2030 period will play a key role in overseeing and enabling this step change in investment by EDBs. However, as the Commission notes, it will be important to balance the ability for EDBs to finance these investments with the risk of price shocks in the context of increasing electricity bills[3] and the broader cost of living crisis.

6. MEUG is strongly focused on the issue of affordability, as electricity is an essential input for our members' businesses. We advocate for an electricity market where customers believe they are paying a fair or justifiable price, and where industry and business can produce products at a competitive price, allowing our exporters to compete internationally, grow export revenue, drive job creation, and reinvest in their businesses.[4] The Issues Paper sets out commentary on the recent price increases that household consumers have faced and likely increases going forward:

> *"Over the last 10 years, average electricity prices and costs for consumers have grown in line with, or slightly below, general inflation. The costs associated with distribution and transmission together comprise about 38% of the average household electricity bill. These costs are likely to increase, potentially significantly, following the upcoming resets."*[5]

7. Large industrial and commercial businesses are also facing significant increases in their electricity costs, often coupled with increases in overall electrical load, as businesses look to electricity process heat and move away from fossil fuels. We share the views noted in the recent Consumer Advocacy Council survey, where consumers are increasingly concerned about both electricity costs and "*the ability of EDBs' networks to withstand extreme weather events*".[6]

Long term interest of consumers

8. When the Commission makes its draft decisions around the DPP reset for 2025 to 2030, we encourage the Commission to consider the broader context facing electricity consumers and how this impacts the "*long-term benefit of consumers*". As noted in our recent submission[7] to the Commission on Transpower's Net Zero Grid Pathways (NZGP) proposal, there are several other components of price increases that consumers are likely to face during the 2025 – 2030 timeframe:

   - There is expected to be an uplift in transmission charges from Transpower's base expenditure sought through RCP4, with a forecast 39.5% increase in revenue requirements.[8]
   - There will also be an uplift in transmission charges, resulting from major capex proposals such as NZGP1.
   - Alongside these regulated components, there is also an expected increase in the wholesale electricity price, which has more than doubled in the last five years.

9. The current framework only enables the Commission to analyse each of the regulated components (transmission and 16 of the EDBs) for an individual regulatory control period, with the transmission and distribution components also analysed in isolation from the other. We

[3] Paragraph X15.3 of the Issues Paper.
[4] http://www.meug.co.nz/node/1330
[5] Paragraph X14 of the Issues Paper.
[6] Paragraph 2.4 of the Issues Paper.
[7] http://www.meug.co.nz/node/1333
[8] Page 18, *Regulatory control period 4 proposal*, Transpower, November 2023, https://static.transpower.co.nz/public/2023-11/RCP4%20Main%20Proposal%202023.pdf?VersionId=TRqSogShhDfomL4gVwFzlzzzGSfRjz30

believe that this current approach, as governed by Part 4 of the *Commerce Act 1986*, does not enable the Commission to make a proper assessment of whether investment across the sector is indeed in the "*long term benefit of consumers*".

10. What is missing from the framework is consideration of the overall impact of electricity prices and whether the total level of investment into the electricity system results in affordable prices for both consumers and businesses. We recommend that this issue be addressed as part of the Government's work on an Energy Strategy and its priorities around ensuring "*there is sufficient electricity infrastructure to ensure security of supply and avoid excessive prices*",[9] separate to this current regulatory process.

Addressing uncertainty

11. The Issues Paper details the uncertainty facing EDBs over the coming regulatory control period, particularly around setting demand forecasts and the necessary expenditure required to meet increasing electricity demand. MEUG welcomes the commissioning of an independent engineering consultancy review of the reasonableness of EDBs' demand expenditure forecasts. This provides a further layer of analysis and insight into EDBs spend, above that already undertaken by the Commission.

12. It is unfortunate that the findings of this reveiw were unavailable during this consultation period, but we look forward to engaging on the results through discussion at the capex forecasting framework workshop indicated for next year. We would encourage an in-person briefing(s), where interested stakeholders can ask questions directly of the independent experts. It would also be helpful to publish the terms of reference for this review, so stakeholders can understand the level of analysis that was undertaken. It will also provide insight about the ability to repeat this type of analysis for future DPP resets.

13. We agree with the statement summarised in Table 3.1 that "*consumer connection capex is difficult to forecast and often driven by decarbonisation initiatives – a new approach should be considered.*" Timeframes for business projects are driven by multiple factors (i.e. access to finance, availability of technology and workforce) and may not often be discussed with EDBs until closer to project implementation when the scale of investment and greater detail is known. MEUG queries whether the introduction of the large connection contract (LCC) mechanism through the 2023 Input Methodologies Review,[10] will assist with dealing with any of this uncertainty.

Deliverability risk

14. Given the scale of investment anticipated over the next regulatory control period, MEUG has concerns about EDBs' deliverability of the forecast investment and how the Commission can robustly assess and respond to this risk. As the Issues Paper notes:

> *From a regulatory perspective, deliverability concerns represent a risk that projects are planned but are not delivered, with the result being elevated profits for EDBs not through improved efficiency but non-delivery.*[11]

15. The Commission notes that this risk will be considered as part of the capex framework as well as part of the 2023 AMP review. We welcome this approach but encourage the Commission to look at what other evidence or insight they can gather, to address and understand the deliverability risk facing EDBs. One report of interest may be the Infrastructure Commission's

[9] Page 6, Coalition Agreement: New Zealand National Party and New Zealand First, https://assets.nationbuilder.com/nzfirst/pages/4462/attachments/original/1700784896/National NZF_Coalition_Agreement_signed_-_24_Nov_2023.pdf?1700784896

[10] https://comcom.govt.nz/regulated-industries/input-methodologies/input-methodologies-for-electricity-gas-and-airports/input-methodologies-projects/2023-input-methodologies-review?target=documents&root=337609

[11] Paragraph 3.28 of the Issues Paper.

report "*Who's working in infrastructure? A baseline report*"[12] which is intended to help identify where New Zealand will face capacity pressures and how businesses and government can respond to them by sequencing work better and training and recruiting new workers. Transpower has also considered the deliverability issues through its proposals for RCP4 and the independent verifier report that supports this proposal.

16. We encourage the Commission to consider what mechanisms it has available if EDBs face significant delivery issues and by mid DPP4, are disclosing that they are not delivering the proposed level of investment. It is not in the best interest for consumers to continue to pay higher distribution charges, where projects are not being delivered and benefits not realised.

Support for maintaining existing quality standards for DPP4

17. MEUG support's the Commission's proposal to broadly retain the reliability standards and incentive scheme from DPP3 and not introduce any new measures of quality. Given the significant investment to be delivered throughout DPP4, we think it is prudent not to require EDBs to also implement and report on new quality standards. The existing quality standards provide sufficient insight and will ensure EDBs remain focused on providing consumers with a reliable and secure supply of electricity.

18. However, as New Zealand continues to electrify greater parts of our economy (i.e. transport and process heat) and thus rely heavily on the electricity system, we believe it would be sensible for the electricity system to review quality standards and determine if the current planning and "N-1" approach is still sufficient and acceptable to consumers. We would also encourage the Commission to continue to monitor the level of consumer engagement undertaken by EDBs and support work in this space to ensure consumer needs are met.

Support for proposed process

19. MEUG welcomes the proposed process for setting DPP4 for regulated EDBs, as set out in Table 6.1 of the Issues Paper. In particular, we:

- Support the intention to run workshops on specific issues. This is something that MEUG felt was missing from the recent 2023 Input Methodologies review. As noted to the Commission in prior submissions,[13] mechanisms such as workshops and discussion sessions with experts can elicit greater insight that would lead to more informed and workable decisions for the electricity sector.

- Welcome the Commission providing a substantive timeframe for consultation on the draft decision, with six weeks for submissions and 4 weeks for cross-submissions. Given the large volume of submissions expected from both EDBs and stakeholders, it is helpful to have up to 4 weeks to review and respond to all submissions where required.

20. We note that the Commission intends to use information from both the early disclosure stage (through s53ZD notices) and from the 2024 AMPs, and therefore may need to consider any material changes in this information when moving from the Draft to Final Determinations.[14] We encourage the Commission to make sure that any significant changes in underlying data and thus the final Determinations are made visible to all interested parties such as ourselves, so we can understand the rationale behind all decisions.

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[12] Who's working in infrastructure? | Research & insights | Te Waihanga and whos-working-in-infrastructure.pdf (umbraco.io)
[13] http://www.meug.co.nz/node/1307
[14] Paragraph 3.20 of the Issues Paper.

Additional comments

21. MEUG has comments on the following aspects of the Issues Paper:

- **Regulatory Control Period**: MEUG supports continuation of a 5-year regulatory period. We do not believe a shorter 4-year period would provide any greater benefits over the current 5 years.

- **Capital Contributions**: We recognise that there is a wide variation in capital contribution policies and that this is an area under consideration by the Electricity Authority. We recommend that the Commission clearly set out how the Authority's work in this space interacts with its DPP analysis and the draft and final decisions for 2025 – 2030.

- **DPP financial models**: While the Commission has only made minor changes to the financial models underlying the DPP reset process, we still encourage the Commission to make these models available ahead of the draft determination. This will enable interested stakeholders and parties new to the sector to make themselves familiar with the models and can make enquiries ahead of consultation on the draft decision.

- Incentives **for energy efficiency and demand-side management**: We note that the Commission does not intend to introduce any specific incentives for energy efficiency and demand-side management is not required for DPP4 as the revenue cap form of control does not impede the implementation of energy efficiency and demand-side management initiatives by EDBs.[15] This seems at odds with the views stated by many EDBs, and we note that there has been no uptake of the innovation allowance during DPP3.[16] As noted during the 2023 IMs review,[17] MEUG supports measures to improve the interpretation and the usability of the Innovation Project Allowance and further discussion on this issue may be merited.

- **Resilience expenditure**: We support the Commission analysing the level of expenditure forecast for resilience activities across the networks. This is an area where all EDBs should be expected to invest in, in response to natural disasters and the increasing affects from climate change. We encourage the Commission to review any significant increases in expenditure in this area, as this could signal underinvestment in prior periods or signal further analysis required of the drivers.

[15] Paragraph X34 of the Issues Paper.
[16] See paragraph 4.17.2 of the Issues Paper.
[17] http://www.meug.co.nz/node/1302

Next steps

22. We look forward to engaging with other stakeholders and the Commission during the cross-submission phase. If you have any questions regarding our submission, please contact MEUG on [redacted] or via email at [redacted].

Yours sincerely

[redacted]

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