

28 March 2024

Ben Woodham
Electricity Distribution Manager
Commerce Commission
PO Box 2351
WELLINGTON 6140

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

Dear Ben

DPP4 reset: Financeability of electricity distribution services

1. This is a cross-submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's (Commission) consultation paper "*DPP4 reset – Financeability of electricity distribution services in the default price-quality path*"¹ published for consultation on 22 February 2024.
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.

Observations from cross-submission process

3. MEUG has briefly reviewed all the submissions made on the Commission's consultation paper on financeability. We support the points raised by the Consumer Advocacy Council (CAC)² and Fonterra,³ who also discuss the impact of the DPP4 reset on consumers. We agree with the CAC's view that "*demand-side management and energy efficiency initiatives also have the potential to defer or avoid investment that would otherwise be required, hence reducing the need for EDBs to raise capital and reducing overall costs to consumers*".

Lack of details around proposed "sense check"

4. Many of the electricity distribution businesses (EDBs) are concerned that the Commission has not provided sufficient detail on how the proposed "sense check" will work in practice, and what metrics / thresholds will be used. For example:
 - Electricity Networks Aotearoa (ENA) states that "*it important for the NZCC to define the notional company and let stakeholders comment on the definition*".⁴

¹ https://comcom.govt.nz/data/assets/pdf_file/0026/344168/DPP4-reset-Financeability-of-electricity-distribution-services-in-the-default-price-quality-issues-paper-22-February-2024.pdf

² [Consumer-Advocacy-Council-15-March-2024.pdf \(comcom.govt.nz\)](https://comcom.govt.nz/data/assets/pdf_file/0026/344168/Consumer-Advocacy-Council-15-March-2024.pdf)

³ [Fonterra-Co-operative-Group-Ltd-15-March-2024.pdf \(comcom.govt.nz\)](https://comcom.govt.nz/data/assets/pdf_file/0026/344168/Fonterra-Co-operative-Group-Ltd-15-March-2024.pdf)

⁴ [Electricity-Networks-Aotearoa-ENA-15-March-2024.pdf \(comcom.govt.nz\)](https://comcom.govt.nz/data/assets/pdf_file/0026/344168/Electricity-Networks-Aotearoa-ENA-15-March-2024.pdf)

- Powerco⁵ notes that “EDBs need regulatory certainty on how these tests will be applied. Without a prescriptive test outlined, stakeholders are unable to comment on the suitability of such a test or provide constructive feedback. This gives the Commission a disproportionately high level of discretion on such a critical issue, as we take the next step in electrification.”
5. MEUG agrees that regulatory certainty is important, not only for the regulated EDBs so they can earn a fair return on investment while being incentivised to improve efficiency and innovate, but also for consumers, so they can have confidence in the Commission’s process for resetting EDB’s revenue allowances and how this revenue will be recovered from consumers over time. We question when the Commission will publish its approach to undertaking these financeability sense checks. Transparency of the DPP4 reset process is important, and it would be preferable to see this detail before the draft decisions are released in May 2024.
 6. MEUG also supports Vector’s⁶ view that it will be important for the Commission to consider the possible outcomes from the Authority’s work on distribution pricing and how this may impact decisions for DPP4.

Time needed to consider expert reports

7. The Oxera⁷ report commissioned by the big six EDBs (Aurora, Orion, PowerCo, Unison, Vector and Wellington Electricity) provides some useful insights into the concepts of investability, dividend payments for utilities, the impact of cash deferrals as well as responding to points raised by the Commission. Unfortunately, due to the tight timeframe for cross-submissions, we have only had a chance to briefly review this material. Concerns about the timeframe for submitting on this consultation paper were also raised by other submitters such as Unison⁸ and Wellington Electricity,⁹ who have commented that the timeframe is relatively short to reply to such a technical paper.
8. Ideally any expert opinions or advice should be released by the Commission at the start of a consultation process; and where expert reports are commissioned by submitters, the material should be provided to all interested parties with sufficient time to consider the detailed information. Consideration of expert reports during the cross-submission process is not sufficient. MEUG recommends that if the Commission intends to consider any of the recommendations put forward by Oxera in the DPP4 draft decision, then any proposals should go out for further consultation. We would be concerned if this information was incorporated without adequate discussion by all stakeholders.

Settings for exempt and non-exempt EDBs

9. MEUG believes that the following statement from PowerNet warrants further consideration by the Commission:

“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 of the view that the current regulatory settings for non-exempt EDBs are inhibiting this transition, which in our view has unfortunately not been efficiently and effectively addressed in the Input Methodology review.”¹⁰

⁵ [Powerco-Ltd-15-March-2024.pdf \(comcom.govt.nz\)](#)

⁶ [Vector-Ltd-15-March-2024.pdf \(comcom.govt.nz\)](#)

⁷ [Orion-New-Zealand-on-behalf-of-the-Big-6-Attachment-1-15-March-2024.pdf \(comcom.govt.nz\)](#)

⁸ [Unison-Networks-Ltd-15-March-2024.pdf \(comcom.govt.nz\)](#)

⁹ [Wellington-Electricity-15-March-2024.pdf \(comcom.govt.nz\)](#)

¹⁰ Paragraph 28, [PowerNet-Ltd-15-March-2024.pdf \(comcom.govt.nz\)](#)

10. As MEUG has noted in previous submissions,¹¹ 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 New Zealand's consumers, and the drive for greater electrification.

Next steps

11. We look forward to continuing to engage with the Commission, EDBs and other stakeholders during the DPP4 reset process. If you have any questions regarding our cross-submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Boyes', with a long horizontal flourish extending to the right.

Karen Boyes
Major Electricity Users' Group

¹¹ MEUG cross-submission on DPP4 Issues Paper, 26 January 2024, <http://www.meug.co.nz/node/1340>