

### **3 July 2024: SUBMISSION TO COMMERCE COMMISSION REGARDING DPP4 DRAFT DECISION**

## **Uplift in investment crucial for consumer needs and resilience**

Entrust welcomes the Commerce Commission's (Commission) recognition that lines companies need to significantly increase investment and expenditure to meet changing consumer needs and to increase network resilience.

Climate change, the energy transition, increasing reliance on electricity, and storm-related power outages in the North Island last year, all highlight the importance of network upgrades and investment.<sup>1</sup>

### **Summary of Entrust's submission**

- Entrust is largely supportive of the Commission's draft decisions.
- Entrust agrees individual line companies' Asset Management Plans (AMPs) should be used to determine capex requirements. Lines companies have the best information on local investment needs. We also support adoption of Vector's 2024 AMP forecasts as price reset decisions should be based on the most up-to-date information.
- The Commission's consideration of 'financeability' is important for investor confidence and ensuring incentives to invest. We would welcome explicit inclusion of 'financeability' in the Input Methodologies (IMs) at the next review.
- While a significant uplift in investment is needed, Entrust is mindful consumers are facing increasing cost of living challenges. Entrust considers the Commission's proposal to partially delay price increases until after 2025 will help smooth prices and protect consumers from price shock.
- We agree that foregone revenue from lines companies delaying necessary price increases should be recovered within the 2025-30 regulatory period. Any additional deferral could harm consumers by increasing their nominal line charges and potentially compounding price shocks from 2030.
- Entrust remains concerned that end-consumers did not receive the full benefits of the lines company price reductions at the last reset, because electricity retailers didn't pass them through in full, but will now pass on lines company price changes in full.
- Entrust supports lines companies being able to apply for larger innovation projects and non-network solutions funding. A higher allowance will better encourage lines companies to innovate and help to meet the Commission's section 54Q obligation to promote energy efficiency and demand side management.

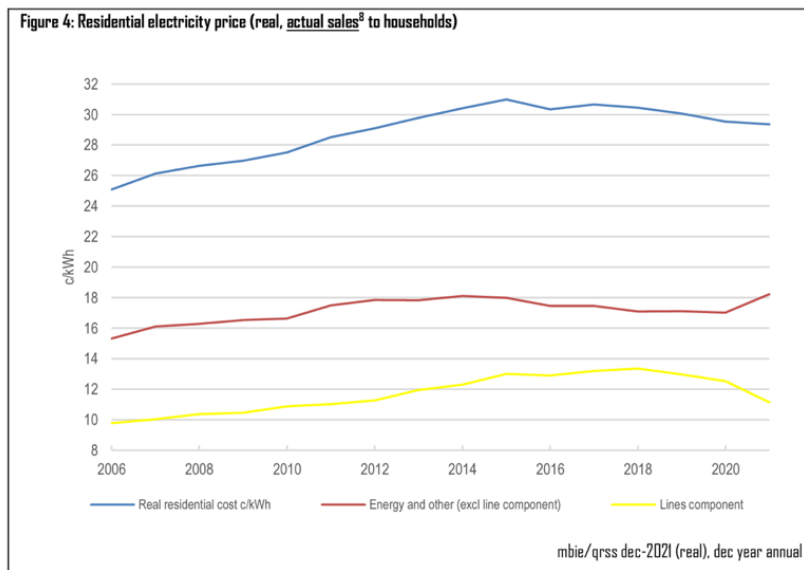
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<sup>1</sup> <https://www.entrustnz.co.nz/media/zutnphnc/2023-07-19-submission-ims-decision.pdf>

## **Entrust's submission**

There is a very real risk consumers will bear the full impact of lines company price increases while missing out on the benefits of earlier price reductions because electricity retailers didn't pass them through in full.

Entrust has repeatedly raised concerns that end-consumers did not appear to receive the full benefits of the 2020 lines company price reductions. Information the Authority provided to the Petitions Committee shows a substantial amount of the lines company price reductions in 2020 were retained by electricity retailers.<sup>2</sup> This could potentially undermine how successfully price regulation provides long-term benefits for consumers.



The concerns we are raising in electricity are very similar to those the Commission has raised in relation to petrol pricing. The Commission's latest petrol pricing monitoring analysis shows that retailers are quick to put the price of petrol up in response to increased costs but slower to bring prices down when global oil prices fall or changes in exchange rates reduce costs.<sup>3</sup>

Entrust considers that pass-through issues have a number of potential policy implications. There would be greater surety of pass-through of lines company price reductions if retail competition was stronger. This is a matter that sits primarily with the Electricity Authority.

Price volatility is particularly harmful for consumers if lines company price increases are passed through by retailers to consumers but price reductions are not. This adds weight to potential options, such as adoption of a trailing average cost of debt (TACD) to determine the regulatory weighted average cost of capital (WACC) and using low interest rates to bring forward investment cost recovery. Entrust considers these matters should be revisited in the next IMs review.

If a TACD approach had been previously adopted the price reductions in 2020 would not have been as big, but neither would the increases in 2025. Entrust considers a TACD approach to setting WACC would benefit both consumers and regulated suppliers.

<sup>2</sup> Electricity Authority, Letter to the Petitions Committee, Re: Flick Electric submission to the Petitions Committee on market pricing and vertical integration in the electricity market, 27 May 2022, Figure 4.

<sup>3</sup> [https://www.linkedin.com/posts/commerce-commission\\_our-latest-analysis-of-fuel-monitoring-data-activity-7206052964925362177-x44i?utm\\_source=share&utm\\_medium=member\\_ios](https://www.linkedin.com/posts/commerce-commission_our-latest-analysis-of-fuel-monitoring-data-activity-7206052964925362177-x44i?utm_source=share&utm_medium=member_ios)

Entrust previously submitted that low interest rates provide an opportunity to bring forward investment cost recovery, while avoiding “price shocks” for consumers. This could help smooth prices over subsequent regulatory periods.<sup>4</sup> This would be no different to a household paying off their mortgage faster when interest rates are low.<sup>5</sup>

### **Concluding remarks**

Entrust wants to ensure electricity is supplied in an efficient and affordable way to all consumers and its beneficiaries, including the 359,000 households and businesses in its area of central, east and south Auckland.

The Commission’s price reset decisions are critical to enabling the investment and expenditure required for network resilience and to meet the changing needs of consumers. Network resilience is becoming increasingly important given the increasing reliance on electricity, the energy transition and climate change.

While a significant increase in investment is needed, we are acutely aware of the pressures consumers are facing with the cost of living. Entrust considers that the proposal to partially delay needed price increases until after 2025 will help smooth prices and protect consumers from price shock.

Kind Regards,



Alastair Bell  
**Chair of Regulation and Policy Committee**

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<sup>4</sup> Entrust, SUBMISSION TO THE COMMERCE COMMISSION REGARDING THE DPP3 RESET: Entrust supports the Commission’s focus on investment cost-recovery, 14 March 2022, at: <https://www.entrustnz.co.nz/media/bl2erq0g/submission-on-the-gas-dpp3-reset-14-march-2022.pdf>.

<sup>5</sup> Entrust, Submission on the 2023 Input Methodologies Review Draft Decisions, 19 July 2023, at <https://www.entrustnz.co.nz/media/zutnphnc/2023-07-19-submission-ims-decision.pdf>.