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Dear Ben

## **Open Letter: Ensuring our approach to price paths is delivering for consumers**

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Commerce Commission's (Commission) open letter "*Ensuring our approach to price paths is delivering for consumers*"<sup>1</sup> published on 25 August 2025.
2. MEUG members have been consulted on the approach to this submission. This submission does not contain any confidential information and can be published on the Commission's website unaltered. Members may lodge separate submissions.

### **Feedback on recent reset of EDBs' price-quality paths**

3. MEUG welcomes the opportunity to provide feedback on the recent reset of the default price-quality paths (DPPs) for non-exempt electricity distribution businesses (EDBs) that applied from 1 April 2025 (DPP4). As an industry body representing one subset of New Zealand's electricity consumers,<sup>2</sup> we have been actively involved in all DPP resets for EDBs to date, alongside the Commission's broader work on the Part 4 regulatory framework that applies to both Transpower and EDBs.
4. We believe that it is critical that consumers have a voice in how EDBs are regulated, the revenue they earn and how this translates to customer charges. On average, distribution charges make up nearly a quarter of an average household bill,<sup>3</sup> and for businesses, this can equate to a significant cost per year. Many of MEUG's members operate sites across the country, connecting to multiple distribution networks, giving them insight into the varying approach to industrial and commercial charges, and network utilisation, investment and performance.

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<sup>1</sup> <https://www.comcom.govt.nz/assets/Documents/2025-reset-of-the-electricity-default-price-quality-path/Open-Letter-Ensuring-our-approach-to-price-paths-is-delivering-for-consumers-25-August-2025.pdf>

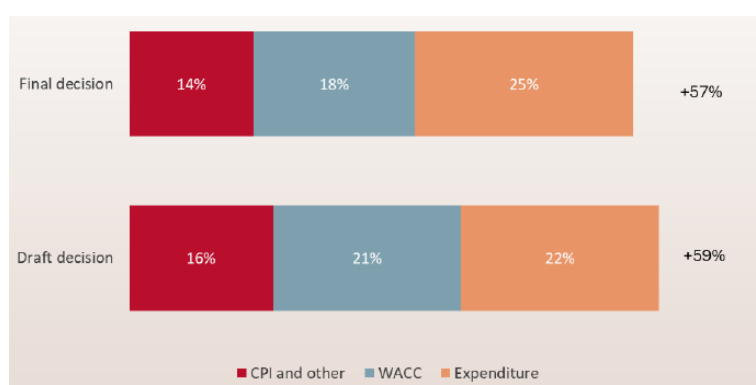
<sup>2</sup> Currently 13 of New Zealand's largest industrial and commercial businesses.

<sup>3</sup> The Electricity Authority estimate 24.5% of an average household power bill is made up of distribution charges, as set out here: <https://www.ea.govt.nz/your-power/bill/>.

5. MEUG has the following observations on the recent DPP4 reset process for EDBs:

- **Engagement process was positive:** We had positive engagement and interactions with both Commission staff and Commissioners throughout the DPP4 process. We appreciated the Commission outlining the process for us ahead of the formal consultation, which enabled us to prepare for key deadlines and best focus our efforts. We also valued the opportunity to meet with Commission staff throughout the process and were able to raise any queries and get responses in a timely manner.
- **Well-structured consultation papers:** The Commission continues to provide clearly written, well-structured papers that explain the reset process, the factors that the Commission is considering during the DPP reset process, and the Commission's key decisions. This helps consumer groups such as MEUG identify the key areas of interest.
- **Imbalance in stakeholder involvement in reset process:** There continues to be an imbalance among the parties involved in the DPP reset process. Regulated EDBs are understandably better incentivised and resourced to take part in the reset process, with very few consumers or consumer bodies / associations able to meaningfully take part in the process. We recognise that this is an ongoing challenge that we have discussed with the Commission over many years. We appreciate the openness of the Commission to explore different ways to gather consumer feedback – i.e. workshops, oral submissions – and help consumers digest the large volume of material that is published for each reset.
- **DPP decisions often driven by factors outside of consumer control.** During the last DPP reset, the increase in EDB revenue was primarily driven by WACC changes and CPI (as shown below). These factors are set through the Input Methodologies (IMs) and are usually outside of scope for the DPP reset consultation process. This leaves limited areas for customers to scrutinise to make meaningful comments that will influence the final decisions on revenue.

**DPP4: Total revenue<sup>4</sup>**



- **Difficulty reviewing expert reports during cross-submission process:** MEUG found it difficult to comment on and critique the numerous expert reports that were provided by EDBs alongside their submissions. The two weeks typically provided for cross-submissions is far too short for many consumer organisations to review all the submissions made (for example, 38 submissions<sup>5</sup> were made on the EDB DPP4 draft decision), let alone review any additional expert reports or analysis.

<sup>4</sup> [Joint RCP4 – DPP4 final decisions stakeholder slides](#), 20 November 2024, Commerce Commission.

<sup>5</sup> <https://www.comcom.govt.nz/regulated-industries/electricity-lines/projects/2025-reset-of-the-electricity-default-price-quality-path-2/?target=timeline#projecttab>

- **Missing estimation of impact on businesses:** In recent years, the Commission has focused on providing clearer information on the impact of its decisions on consumers – for example, with the final decisions for DPP4 and RCP4, the Commission noted that this would represent “around an extra \$10 on the average household’s monthly bill from 1 April 2025”. While useful for individual consumers, this does not help small businesses, commercial businesses or heavy industry.
- **DPP decisions undertaken in isolation:** Due to the requirements of Part 4, the Commission can only consider the price impact of each regulated component in isolation, i.e. only the distribution component charged by EDBs. However, for most customers, they want to understand the total increases in their electricity price, in the coming period.

### Recommendations for mechanisms, incentives and settings for DPP5

6. We have set out below several ideas and suggestions<sup>6</sup> for evolving the reset process for DPP5, to address some of the concerns raised above and provide outcomes that are more aligned with consumer interests:

- **Need for smoothed WACC to remove volatility over multiple regulatory periods.** Increases in inflation and interest rates had a significant impact on the proposed WACC for DPP4, and this was the driver for a large proportion of the increased revenue requirements for DPP4. However, stakeholders have very little ability to influence the WACC figure through the DPP4 reset, as it is set outside of the price-quality reset process. WACC also varied considerably between DPP3 and DPP4 translating to a consider price shock for consumers.

MEUG strongly recommends that the Commission review the process for setting the WACC, looking at the methodology of how it is calculated and how the WACC percentile is applied. We believe that a smoothed approach would be more beneficial for both consumers and regulated entities in the long-term. A collective of electricity stakeholders recently called for this change in a submission on the fibre IM review.<sup>7</sup>

- **Shift in balance of risk support case for decrease in WACC percentile:** MEUG believes that there has been a shift in the balance of risk between regulated businesses and consumers over recent years. EDBs now have a greater range of re-openers available to them, greatly reducing the risk of underinvestment in the network. As advocated in many submissions, MEUG believes there is an increasingly strong case to move the WACC percentile for EDBs (and Transpower) down from 65 percentile towards the 50<sup>th</sup> percentile.
- **Investigation of clawbacks for drops in forecast demand:** Alongside a reduction in risk, we encourage the Commission to explore possible clawback mechanisms for situations where EDBs experience a considerable drop in demand from that forecast. At present, the Commission’s interventions are asymmetric, with only re-openers for growth. With the current sluggish economy,<sup>8</sup> there is a real risk that demand forecasts are overly optimistic and see consumers paying for investment well ahead of actual demand.

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<sup>6</sup> Many of these ideas have been discussed in previous MEUG submissions to the Commission and the Electricity Authority, see submissions dated [11 April 2024](#), [12 July 2024](#) and [2 August 2024](#).

<sup>7</sup> <https://www.ena.org.nz/our-work/submissions/document/1561%C2%A0>

<sup>8</sup> As outlined in the [MEUG Chair opinion piece](#) on 25 September 2025, the 3.5 percent drop in manufacturing activity in the June quarter ranks as the second worst result across all sectors of the economy.

- **Cross-checking of sector assumptions:** Due to the low-cost approach of the DPP, there does not appear to be any cross-checking of the assumptions made by EDBs against Transpower, to ensure that they present a consistent approach to demand forecasting and infrastructure planning. We would welcome further analysis in this space, looking at consistency in demand forecasting, particularly among regions or an urban/rural basis.
- **A stronger focus on ensuring EDBs have fully optimised the use of the existing network, before getting approval to build new assets.** This could involve greater scrutiny of network capacity measures and adapting the price-quality regime to factor in these measures before approving allowances for a regulatory control period. For example, networks must be able to demonstrate that networks are at or over 75% utilisation before proceeding with certain investments in new lines.

MEUG also has some support for the use of a “totex” approach by the Commerce Commission, where EDBs face equal incentives for both Opex and Capex solutions for network, and would encourage this to be reviewed again ahead of DPP5.

- **IPPs for the largest EDBs:** Given the limitations of the low-cost DPP regime and the magnitude of the spending sought by many of the EDBs, MEUG considers that there is a growing case to introduce Individual Price-quality Paths (IPP) for the 6 largest EDBs in New Zealand. This would allow greater scrutiny of expenditure, provide for a more tailored approach and provide the level of assurance that consumers need. We query whether this change could be explored and discussed with Government ahead of DPP5.
- **Stronger focus on productivity and the ability to benchmark:** MEUG's submission on the CEPA report highlighted that the Commission is still left with a position where New Zealand EDB productivity has declined over the measurement period while the same measures applied to EDB in the UK and Australia show either long-term improvement or stabilisation of productivity. The recent poor productivity performance of EDBs also raises concerns about the efficiency of their planned investment in network expansion.
- We believe that further work is required in this space to get greater insight and the ability to benchmark EDB performance could assist with this. MEUG also recommends that the Commission indicate what action it is considering to further encourage the EDBs to stabilise and improve their productivity.
- **Use of non-traditional solutions:** MEUG supports the greater use of non-traditional solutions (NTS), across distribution networks, where it is cost effective. We welcomed the changes that were introduced in DPP4, with the introduction of the Innovation and Non-Traditional Solutions Allowance (INTSA). It is encouraging to see several EDBs already apply to the Commission for this. To ensure progress is made in this area, we encourage the Commission to:
  - Review how the sector is sharing and adopting the learnings from the first INSTA applications.
  - Consider mechanisms to penalise those EDBs who don't establish innovation plans for their network.
  - Review what networks are actively working with retailers and load aggregators, to introduce greater levels of time of use pricing and look at demand side response options.

At a broader market level, we also believe further work is needed to understand what range of NTS are presently available to EDBs and Transpower, and what is the state / maturity of the NTS market.

- **Need to evolve modelling of consumer price impacts:** It is important that the Commission clearly communicate the impact of its DPP decisions on all types of electricity consumers, be it residential households, commercial businesses or large industrial players such as MEUG's members. The consumer information released with the final decisions for DPP4 was a positive step, but we agree with stakeholders who (during the consultation process) called for the Commission to "evolve its understanding and modelling of consumers price impacts."

In addition, we call for EDBs and retailers to work together, with support from government agencies, on how these changes be more effectively and transparently communicated to all consumers. MEUG has observed varying practices across EDBs when communicating price changes to customers and would support greater consistency in approach.

- **Assessing overall impact of electricity price increases:** We repeat our call for the Government to consider how it can look at the overall impact of electricity prices and whether the total level of forecast investment into the electricity system results in affordable prices for both consumers and businesses. This would involve looking at the forecast increases in all electricity price components over a regulatory period (wholesale, transmission, distribution, retail) and presenting this to consumers.
- **Quality standards:** MEUG consider that the current quality standards for EDBs are relatively fit for purpose. However, there could be room to look at a quality standard around connection processes, in line with the work led by the Electricity Authority. With increasing electrification and overall forecast increases in demand, the connection process will become increasingly important to consumers.
- **Role of Distribution System Operators (DSO):** We encourage the Commission to discuss how the role of DSOs in future periods may impact the price-quality path process and any subsequent decisions for regulated EDBs.

7. In addition to the topics discussed above, we encourage the Commission to continue to evolve the consultation process for DPP resets. We would welcome consumer-focused workshops, workshops discussing any expert reports presented by submitters, the opportunity to provide oral submissions, and greater time allocated to the cross-submission process.

### Coordination with broader Government workstreams

8. As the Commission starts the process for DPP5, we encourage the Commission to clearly set out how its work is coordinated with and interacts with the distribution-related work of the Electricity Authority. There is a considerable degree of overlap between the Commission and Authority's work programmes, and this can place a lot of pressure on the sector as they try to comment on and contribute to work led by both organisations. A coordinated calendar of consultations is a helpful step.
9. In addition, the Commission should discuss how its work is impacted by the Government's recent announcements on the Frontier Economics review of the wholesale electricity market. MEUG is interested to understand how the action around efficiency of EDBs (action 2.6)<sup>9</sup> may impact the DPP reset process for EDBs and what involvement the Commission has in this action.
10. Finally, MEUG would like the Commission to include commentary on how the DPP decisions for EDBs are impacted by regulatory decisions on the gas transmission and distribution networks. With a forecast sharp decline in natural gas, we expect many households and businesses that are currently reliant on gas will need to electrify (or shift to other fuel sources). This shift in

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<sup>9</sup> <https://www.beehive.govt.nz/sites/default/files/2025-10/At%20a%20Glance%20-%20New%20Zealand%27s%20Energy%20Package.pdf>

customers demand could have a considerable impact on several networks, with the need to accelerate the build out of networks. DPP decisions for gas and electricity should not be taken in isolation from each other.

### Next steps

11. MEUG would welcome the opportunity to meet with Commission staff to discuss the ideas raised in our submission further. If you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at [karen@meug.co.nz](mailto:karen@meug.co.nz).

Yours sincerely



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