



Fact Sheet: Electricity Distribution Businesses

Electricity Distribution Business (EDB) efficiency

Background

- There are long-standing concerns that the number and size of EDBs in a country New Zealand's size may be limiting efficiency. There are currently 29 EDBs with a range of ownership models, including trust, council, private, and mixed arrangements. Their sizes vary from Buller with around 4,900 connections to Vector with around 620,000 connections.
- As natural monopolies, EDBs are regulated so they face incentives consistent with a competitive market.
- Frontier recommended amalgamating the 29 EDBs into 5 large EDBs. The Government does not plan to progress this recommendation as forced amalgamation would be expensive and complex and may face strong opposition from communities. There is also no conclusive evidence that structural ownership changes are needed to achieve efficiencies.

Why it matters

- Electricity distribution is a key component of our energy system and improvements in efficiency can have significant impacts on affordability. Distribution charges account for roughly 25 per cent of residential electricity bills, and an estimated \$22 billion is needed over the next decade to prepare networks for rapid electrification.
- Innovation and increased use of flexible resources like batteries, rooftop solar or smart devices creates opportunities for EDBs to improve efficiency by optimising network use and deferring costly upgrades that would otherwise be reflected in consumers power bills.

Government action

- To encourage EDBs to operate efficiently and take advantage of opportunities for innovation, the Government will pursue alternative, less disruptive options that deliver benefits to consumers more quickly.
- EDBs have been asked to report back on opportunities to improve standardisation and collaboration and there is existing work at the Electricity Authority to improve regulation of the sector. The Government will consider the response from EDBs before deciding if further regulatory action is required.

EDB Investment thresholds

Background

- EDBs currently have restrictions on their involvement in generation connected either to their own networks or Transpower's network. EDBs can currently invest in up to 50MW of generation connected to their own network, or up to 250MW of generation connected to Transpower's network, but beyond those thresholds they are subject to obligations.

Why it matters

- These restrictions allow EDBs to invest in generation but make it expensive to do so.

Government action

- The restrictions will be removed for generation connected to Transpower's network.
- For generation connected to an EDB's own network, the restrictions will now be triggered at a higher threshold - 250MW instead of 50 MW.
- Safeguards against anti-competitive behaviour remain in place in the Electricity Participation Code and the Commerce Act.