



DPP for electricity distribution businesses from 1 April 2025 – Proposed Process

June 2023

Submission and contact details

Consultation	Default price-quality paths for electricity distribution businesses from 1 April 2025 – Proposed Process
Submitted to	Commerce Commission (Commission)
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Release of information

We are comfortable for any part of this submission being made public. This submission contains no confidential information.

1 Introduction

Thank you for the opportunity to make a submission to the *Default price-quality paths for electricity distribution businesses from 1 April 2025 - Proposed Process* consultation. This submission will refer to the consultation document as 'The Paper'.

In May 2022, the Government released its overarching Emissions Reductions Programme (**ERP**) which included the electrification of many fossil fuel uses. The ERP will significantly increase electricity demand and New Zealand's reliance on the Electricity network as its primary clean energy source for consumers. Electricity Distribution Networks (**EDBs**) will have to build and develop new capacity and capability to deliver the demand increase. This will require a step change in investment and in resources and capability to deliver that investment. Our Asset Management Plan (**AMP**) released in April 2023 reflected the increase in forecast demand and the increase in investment needed. Changes are required to the current regulatory framework to support these changes and to continue to incentivise EDBs to invest. We are pleased to note the Commission's recognition of the challenges ahead and the need for change in both the Input Methodologies Issues discovery phase and

summarised in the Paper. We look forward to participating in the DPP4 price/quality path reset. It is essential that networks have the allowances available to deliver our customer's increasing demand. It is also important that our quality paths reflect any changes to customer expectations about network resilience and quality of supply, as electricity becomes their primary energy source. We expect that customers will want a more reliable electricity supply as petrol, diesel and gas fuel sources transition to the electricity network, at a time when their connection to existing infrastructure is disrupted to build the new capacity.

2 Specific process considerations for feedback

2.1 Review of the 2023 asset management plans

Given the potential step change in emissions reduction-related investment and the short time frames networks have had to amend their AMPs and investment forecasts (it has only been 13 months since the ERP was released in May 2023), applying a higher degree of scrutiny to the 2023 AMP is sensible.

We also note that because of the short time frame to incorporate ERP-related investment, EDBs are also likely to still be developing and refining their modelling and investment plans. The additional scrutiny will also highlight any components of an EDBs AMP capex and opex schedules that they may be updating for the expected December disclosure.

2.2 Disclosure of 2024 expenditure forecasting

We understand the need for an early disclosure of any material changes in the investment and quality profiles and think that it would be reasonable for a network to provide updated Capex, Opex and quality schedules in December 2023 assuming the disclosure was limited to:

1. The Opex and Capex schedule
2. Reliability forecast schedules
3. Details of any material changes to the forecasting methodology used to update the forecasts
4. Gap analysis to the April 2023 schedules and an explanation of material differences
5. Uncertified (by Directors) disclosures – Director certification would significantly reduce the time available to develop the schedules. Management certification could be used in the absence of Director certification.

It is important to include updated reliability forecasts to reflect the impact of delivering decarbonisation-related work programs on the quality targets. Building new capacity will require the electricity supply to be interrupted. DPP information requests may have to consider separate growth SAIDI & SAIFI measures to distinguish the investment disruption against the underlying network quality performance. Careful consideration of the DPP quality settings will be needed to balance maintaining an acceptable level of quality with allowing networks to build new capacity without the threat of regulatory penalties or a breach.

The Commission could support the AMP update with further external expert support to provide additional scrutiny of the schedules.

2.3 Stakeholder workshops

We agree that workshops provide a great opportunity to understand the issues and develop potential solutions. We think the workshops provide the most value early in the process before a draft decision is made. This will allow the draft decision to focus on refining solutions that are best suited to resulting the key issues. Under the proposed timeline, EDBs and stakeholders would not have the opportunity to provide feedback on new issues or solutions identified in the draft decision phase. Examples of this situation from the DPP3 price-setting process included a quality normalisation framework and new capex gates that were introduced for the first time in the final decision and stakeholders didn't get an opportunity to provide feedback. It is essential for the set of issues and solutions to be established during the issues identification phase and workshops provide an important tool to do this.

Our feedback to the DPP3 reset process included ensuring the workshops were in a format that stakeholders could participate meaningfully. The DPP3 workshops were too large for stakeholders to provide feedback. We thought the IM online workshops which directly called on specific networks to provide pre-prepared comments and included the opportunity to submit were excellent and were a great improvement from the DPP3 format. We also thought the April 2023 Information Disclosure Tranche 2, in-person, workshop provided an excellent format for providing detailed input on the issues and for providing potential solutions.

2.4 Engagement with consumers and Māori

We support the Commission's consideration of a more direct approach to gathering consumer feedback. As highlighted in our AMP¹, EDBs have traditionally provided distribution services in the

¹ Chapter 4, <https://www.welectricity.co.nz/disclosures/asset-management-plan/>

background of people's lives, with customers only becoming aware of the service when the electricity supply is unavailable. Retailers have been responsible for communicating with customers, and EDBs have had little direct customer contact. This has worked well in the past under the 'business as usual' operations in which distribution services have changed very little in terms of service provision and quality.

New technologies are offering some customers new benefits and opportunities and are changing how they use electricity. Figure 1 summarises the changing customer requirements and the resulting impact on the distribution network.

Figure 1 Changing Customer Requirements and distribution services

New Customer Requirement	Impact on distribution services
New large appliances like EV chargers.	Residential ADMD increasing beyond what the low-voltage network was designed for. New network investment needed.
Increased reliance on electricity as the sole household energy source.	Expectation of higher service quality and fewer outages.
Increasing use of flexible working arrangements, such as working from home.	Less tolerance for planned outages for maintenance in residential areas.
Customers wanting to share spare electricity they have stored or generated.	Two-way power flows on the LV network. Voltage profiles becoming less predictable.
Affordable household costs	ERP-related investment will increase electricity prices at a time those in energy hardship may not be able to afford the increase. Household energy costs need to remain affordable for networks to retain their social license.

With the changes in electricity distribution services driven by the new technology and a greater range of customer requirements, EDBs and the Commission will need to develop a wider relationship with our customers. Customers or customer representatives² will need input into the DPP4 process to ensure distribution services are providing the level of quality and resilience they want at a price they are willing to pay. Customers will need to be educated about the options available to allow them to

² We have been successful in seeking Council support as a customer representative for feedback and input on resilience or supply security to the community.

provide informed feedback and input into the price/quality setting process. Customers will need to consider:

- How local generation, storage and demand shifting will impact their services
- What level of resilience they want their network to have as the electricity network becomes their primary energy source – including the potential impact of ongoing storms or sea-level rise.

EDBs and the Commission will need to consider how to balance a wide range of different customer requirements, including customers who may not be able to afford to participate in flexibility services and receive the benefits that participating in these services provides.

2.5 DPP regulatory period

We disagree with a shorter regulatory period.. Reopeners are an important tool to enable EDBs to deliver customer projects that have not been captured in the regulatory allowances. However, a reopener is only available if the project will be completed and commissioned before the end of the regulatory period. Large projects, usually require reinforcement of the high voltage network which can take 2-5 years to consent, design and build. Currently, the reopener would therefore only be viable for large projects if the network knew about the investment in years 1-3 of the regulatory period, leaving enough time to apply for additional allowances using the reopener mechanism and to complete the consent, design and build before the end of the regulatory period.

If the EDB cannot complete the project before the end of the regulatory period, they would have to delay the project until the next regulatory period, get the customer to directly fund more of the project (including any network growth that other future customers will benefit from) or start the project before allowances for the next regulatory period have been confirmed and hope the capex gates don't reduce allowances and leave the network with large IRIS penalties.

As highlighted in the Paper, the first 1-3 years is when EDBs are most certain of their customer requirements. Shortening the regulatory period will limit the timeframes available for networks to deliver customer projects funded by a reopener. Networks, in turn, will have to shuffle projects around to fit regulatory periods, rather than customer needs.

Our preference is to keep the five-year regulatory period and adjust and broaden the flexibility mechanisms like reopeners that are available and to make them agnostic of when in the regulatory period an unforeseen project might fall.

A shorter regulatory period would also increase the regulatory compliance costs for the DPP regime which is designed to be a light-handed, low-cost regime.

There may be an argument for a longer regulatory period with reopeners and contingent event tools.

2.6 Issues paper consultation

We are concerned that the 4-week consultation period for the Issues paper may be too short. It is important that the issues discovery step in the process develops a robust and complete set of issues and solutions that can be used to inform the Draft Decision.

Discovering new issues or solutions during the draft decision process does not give stakeholders time to provide feedback if the Commission then include these in their consideration of the final decision. This risk is partly mitigated by the workshops which provide another opportunity to provide input into the Issues phase. We would suggest that the Commission include a follow-up draft decision consultation if they propose to include mechanisms not consulted on in their final decision.