networktasman
Your consumer-owned electricity distributor

Network Tasman Limited
52 Main Road, Hope 7020
PO Box 3005
Richmond 7050
Nelson, New Zealand

Phone: +64 3 989 3600
Freephone: 0800 508 098
Email: info@networktasman.co.nz
Website: www.networktasman.co.nz

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Ben Woodham

Electricity Distribution Manager; Commerce Commission

Wellington 6140

By email: infrastructure.regulation@comcom.govt.nz

Submission to the Commerce Commission on EDB Expenditure forecasting

Network Tasman appreciates the opportunity to respond to the follow up questions from the Commerce Commission's Workshop on forecasting and incentivizing efficient expenditure for EDBs held on 7 November 2022.

In addition to endorsing the ENA's submission Network Tasman wishes to elaborate on a couple of matters the ENA does not address in its submission.

It its 15 November 2022 letter seeking feedback on expenditure forecasting undertaking by EDBs the Commission notes that the energy sector is in a period of change and uncertainty and that where and when investment may be required will depend on a number of factors.

The Commission notes that at a high-level there it has two options for expenditure forecasting for DPP4:

1. Rely on EDBs own forecasts;
2. Develop its own forecasting methodology.

The Commission offers no explanation of why it may be better equipped to forecast each non-exempt EDB's expenditure in the face of these changes than the EDBs themselves.

The only guide to the Commission's thinking is the statement that it may not be able to rely on EDB forecasts because EDBs **may** have incentives to inflate costs and variations in quality, presumably in an

attempt to artificially increase their allowable revenues. The Commission concludes that these circumstances may mean it is not relatively low cost to undertake detailed scrutiny of AMPs.

Prior to making any decision about whether to develop its own forecasting methodology, Network Tasman submits that the Commission should seek to determine whether these incentives actually exist, and if so, whether they are strong enough for EDBs to act on.

From a Network Tasman perspective, we have no financial incentives to inflate any expenditure forecasts. Over the past five completed regulatory years, Network Tasman recovered more than $30m (in nominal terms) **less** than was allowed by the DPP price/revenue cap. This cumulative value is greater than Network Tasman's entire forecast net allowable revenue for the coming 2023/24 regulatory year.

Network Tasman's current forecasts are for revenues to remain below our revenue cap for the foreseeable future.

Accordingly, as Network Tasman is not revenue constrained, we do not face any incentives to inflate expenditure forecasts in order to game the DPP framework. Network Tasman suggests this may be the case for all EDBs that are not pricing to their revenue cap.

Network Tasman submits that the Commission needs to be clear about the problem/s it is trying to fix for EDBs that have no incentives to inflate expenditure forecasts.

If the Commission does develop its own forecasting methodology it must also satisfy itself that it is better placed to develop an expenditure forecasting methodology that accounts for the specific individual network characteristics (historical, current and future) of each non-exempt EDB.

Additionally, the Commission has raised a range of questions that are pertinent to the delivery of robust expenditure forecasts. The questions identify the uncertainty, complexity and difficulty that are inherent in expenditure forecasting. The Commission needs to be able to tangibly demonstrate that it is better equipped than the EDBs themselves to address these uncertain and complex issues.

Area	Confidence in forecast requirements
Primary question	How are EDBs obtaining confidence in establishing the requirements they are forecasting to meet, including but not limited to demand, resilience, and reliability?

Additional questions to help frame responses	i. Are EDBs intending to change the inputs used in forecasting expenditure given key drivers of forecasts may have changed – particularly in the following areas: • Connection growth (e.g., new connections from development, green fields and brown fields) • Large capacity growth, (e.g., decarbonisation, industrial growth) • Incremental demand growth (e.g., EVs, residential technology) • Legislative change ii. With a potentially increased need for resilience-related investment, what are the key inputs for EDB resilience forecasting? iii. What forms of assurance will EDBs use (e.g., external verification) to provide confidence in forecasts, particularly where new forecasting inputs are used?
NTL response	We are less confident in our forecasting and network development projections than in previous years due to the uncertainty in EV demand growth, in legislative change and the timing (but not location or size) of large potential decarbonisation loads. Our inputs to forecasting reasonably well known sections (connection growth and standard large capacity growth) will be unchanged. As we have less knowledge or confidence in the other sections (EV's, residential technology, legislative change), we can only make assumptions and base our forecast on these. We will state these assumptions. Overall however our forecast will be less certain than in previous years.
Area	**Step changes and scenarios**
Primary question	Are there specific events or metrics that can be forecast and then observed that indicate that a step change in expenditure is required or an alternate scenario is playing out?

Additional questions to help frame responses	i. What forms of information do EDBs use to build scenarios on thedifferent forecast areas? ii. What are the underlying drivers where EDBs are forecasting a potential significant step change in expenditure requirementscompared to previous levels? iii. Are there trigger points where increased certainty on level of spendrequired may be obtained? iv. What are the key dependencies or risks EDBs have identified which may impact forecast scenarios? v. Do EDBs consider that the expenditure required to address differentscenarios may usefully follow proxies or will these be disjointed andnetwork characteristic and network design specific increases? vi. What is the sensitivity of the expenditure plan to out-turn differences in requirements like incremental demand growth,resilience, decarbonisation, and connection growth?
NTL response	Network Tasman uses a range of information sources to build scenarios on the different forecast areas. This include knowledge of local government planning, observed trends in consumption patterns by sector, engagement with large thermal load within our network boundary and modelling a range of EV charging and penetration scenarios to understand the effects on our LV networks. The main areas where we are forecasting significant step changes in expenditure requirements are in the maintenance of reliability, security of supply and safety. The key risks Network Tasman has identified that may impact forecast scenarios are EV penetration and charging, legislative/Government policy changes and the timing of large decarbonisation load. We consider the expenditure required to address different scenarios will be relatively disjointed compared to historical levels. We expect expenditure for incremental demand growth, resilience, decarbonisation and connection growth to be relatively sensitive when compared to the historical environment.
Area	**Confidence in expenditure plan**

Primary question	How are EDBs obtaining confidence that their proposed expenditure plan is the most effective and efficient solution for the forecast level of demand, resilience requirements, and reliability levels?
Additional questions to help frame responses	i. In which categories of expenditure do EDBs have greater levels ofconfidence than others? ii. Where new sources of uncertainty exist related to potential increases in expenditure requirements, is there a particular driver of the uncertainty? iii. How are EDBs accounting for the uncertainty of timing of when non-network solutions may become available or viable (due to technological developments or scale) and able to defer networkinvestment requirements? iv. What forms of assurance do EDBs use, including externalverification / challenge to provide confidence in the appropriateness of expenditure plans?
NTL response	We have greater levels of confidence in forecasting network maintenance and renewals. We see the Government policy as being a key driver of uncertainty for expenditure forecasts. For large projects we investigate the viability of non-network solutions as part of the development of any business case, including engaging with possible providers to understand the likely viability of any such service as an alternative to tradition network investments. These formal and informal engagements provide Network Tasman with an understanding of the cost and capability of non-network solutions which compared to traditional network solutions. Network Tasman undertakes periodic external peer reviews of our AMP plans and AMP planning processes.