



Orion



2 August 2024

Ben Woodham
Electricity Distribution Manager
Commerce Commission
44 The Terrace
Wellington 6140
By email: infrastructure.regulation@comcom.govt.nz

Dear Ben,

DPP4 draft decision – Big Six cross-submission

Who we are:

We are a group of the six largest price-quality regulated electricity distribution businesses EDBs in Aotearoa New Zealand - Aurora, Orion, PowerCo, Unison, Vector and Wellington Electricity. We formed in 2021 around a shared interest in delivering future-ready electricity services to communities and a common belief that decarbonisation needs to be integral to the regulatory framework.

Cross-submission:

Please see below a table summarising our alignment on the Commerce Commission's draft decisions for the default price-quality path reset:

Topic area	NZCC draft decision	Quote by	Quote from submissions	Combined Big 6 position
Revenue smoothing & financeability	<ul style="list-style-type: none"> Financeability using FFO/Debt and Debt/EBITDA 	PowerCo	<p>We support the Commissions decisions to:</p> <ul style="list-style-type: none"> Allow full recovery of DPP4 revenues in period with no deferral into DPP5. This ensures EDBs can maintain real FCM which is fundamental to ensure continued investment in the sector. Apply a financeability test as a practical sense check and we welcome the Commission using a BBB+ rating as these reflect credit metrics that rating agencies widely apply. 	We support the recovery of cashflows within the DPP4 period to mitigate financeability concerns. We also believe the Commission's proposed approach to financeability is sensible.
	<ul style="list-style-type: none"> Revenue smoothing & price impact 	Orion	<p>For the first time, the Commission is currently proposing to smooth the necessary revenue increases across the regulatory period to manage consumer price shocks. While we acknowledge what the Commission is attempting to do, we consider that customers should face more of the cost in the first half of the period (and consequently smaller increases in the latter years).</p>	We support the Commission to consider whether one-off bigger initial price shock, but lower shock in subsequent years (as supported by economic research by Nobel Prize winning economist Richard Thaler) is more palatable to customers than a relatively high continuous yearly uplift
Capex	<ul style="list-style-type: none"> 125% uplift on historical average 	Aurora	<p>The use of an arbitrary limit of 125% of the historic reference period may not be appropriate for the DPP4 period when an increase in investment is needed to meet New Zealand's electrification goals.</p>	We support capex caps higher than 125%
	<ul style="list-style-type: none"> Standard useful life (45) applied for new assets 	PowerCo	<p>We also recommend the Commission changes it's 45-year assumption for the remaining life of newly commissioned assets and adopt a weighted average asset life that more closely reflects the actual depreciation and useful lives of these assets.</p>	We support moving to a more accurate calculation of average asset lives to align with the depreciation methodology

Opex	• 5% aggregate cap on step changes	Unison	An opex 'cap' undermines the legitimacy of the step change driver being outside of EDBs' control.	We support the increase or removal of the 5% cap on step changes
	• Partial productivity 0%	Aurora	The decision to retain the 0% PPF is further supported by the CEPA EDB Productivity Study 2024 which found no compelling evidence that there has been a real decline in productivity over the DPP3 period, and that there are outputs that consumers value that are not accurately captured in PPF metrics.	We support the 0% partial productivity rate
	• Insurance as a step cost	Wellington Electricity	The Draft Decision also said it is not practical or low-cost to treat insurance as a pass-through. Again, we disagree. Networks could provide an annual, director-certified, if necessary, expert report confirming coverage levels are prudent.	We support recategorising insurance costs as pass-through
	• No opex reopener option	Wellington Electricity	Providing a limited ability to reopen opex allowances could be provided by a new reopener	We support the introduction of opex reopener options
INTSA	• INTSA capped at 0.6% of MAR	Orion	However, we submit that the Commission should provide EDBs with the opportunity to access allowances up to 5% of their maximum allowable revenue. Providing for a higher allowance will incentivise EDBs to be innovative, utilise non-traditional solutions when feasible and encourage EDBs to be ambitious for the development of such projects.	We support increasing the INTSA cap to 5% of MAR
	• INTSA criteria	PowerCo	It will be important for the guidance to have a broad view on the types of projects that could fit within this INTSA mechanism, and the 'riskier than BAU' criterion to be reviewed to ensure all types of projects are enabled, and Section 54Q obligations therefore achieved.	We support a review of the "riskier than BAU" criteria which could limit certain initiatives (e.g., flexibility)

	<ul style="list-style-type: none"> • INTSA SAIDI/SAIFI cap exclusion 0.5% of limit 	Vector	However, it is our view that SAIDI and SAIFI related to flexibility service providers should be entirely carved out, rather than capped. This would otherwise this could act as a disincentive to engage with third parties on innovative projects and services.	We support carving out rather than capping SAIDI/ SAIFI for INTSA projects
Quality	<ul style="list-style-type: none"> • Retain current standards for planned and unplanned SAIDI and SAIFI 	Vector	We agree with the draft decision to introduce no new quality standards for DPP4.[...] EDBs face a significantly more difficult operating environment relative to the historic reference period with a greater likelihood of severe weather events.	We support no new quality standards being introduced. We urge the Commission to take stock of the operating challenges and growing work programmes that EDBs face in light of reliability targets.
IRIS	<ul style="list-style-type: none"> • Allowances include Customer connection capex 	Unison	Unison supports removing connection capex from the IRIS to recognise it is outside of the EDBs control (as the timing is customer driven). This will rebalance the incentive to invest in new customer driven assets by removing the potential penalty.	We support the removal of connection capex from IRIS
Reopeners	<ul style="list-style-type: none"> • Reopener guidance 	PowerCo	For flexibility mechanisms to be effective, the Commission must streamline the process and remove ambiguity from the criteria and definitions. Clear rules and processes will expedite the process and improve the quality of applications from EDBs, preventing the Commission and EDBs from getting tied up in burdensome and lengthy regulatory processes.	We support adopting the PWC guidelines issued by the Big 6

Your sincerely,



Richard Sharp - on behalf of the Big Six