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UNISON NETWORKS LIMITED CROSS SUBMISSION ON THE DPP4 DRAFT DECISION

Unison Networks Limited (**Unison**) was pleased to see a broad spectrum of submitters on the Commission's DPP4 Draft Decision.

In addition to our 12 July 2024 submission, and relevant to other submissions received, we highlight the matters below:

- A substantial starting price uplift remains critical to enable EDBs to make necessary investments in growth, resilience and innovation in DPP4. This remains the case if the Weighted Average Cost of Capital (**WACC**) drops before the final decision to maintain EDB financeability and restore incentives to invest as envisaged by the Draft Decision.
- An 125% capex uplift is not sufficient to provide EDBs adequate funding to undertake robustly forecast work programmes and is not in consumers' long-term interests (promoting least cost life-cycle basis asset management).
- Use it or Lose it (**UIOLI**) Allowances are pragmatic and transparent and can be scrutinised proportionately to protect consumers from EDBs earning excessive profits. They could apply to both network capital investment and procuring flexibility.
- Guidance on reopener processes, INTSA, Large Connection Contracts, and enforcement of quality breaches will improve regulatory certainty. This will improve the efficacy of the DPP4 decision for the benefit of EDBs and consumers.
- Improving the resilience of networks requires investment in traditional capital solutions, innovation and non-traditional solutions.

Submissions

The purpose of the table below is to confirm Unison's support or opposition for the position of submitters on other key matters addressed in its 12 July 2024 submission or additional to it. This table is to be read alongside the Big 6 submission detailing joint recommendations, and the Electricity Networks Aotearoa's submission which Unison supports.

Submitter	Issue and Unison's position
	Capex
Alpine Energy	**Support** Pg 6, [25]. We recommend the Commission acknowledge the non-linear relationship between forecast system growth capex and capacity requirements and ensure any impacts about deliverability on DPP4 settings (e.g. capex limits) are evidence-based.
Fonterra	**Oppose** Pg 1. Notably, under the current Commission methodology, EDBs can receive more than what has been accounted for in the DPP4 via capital contribution requirements and can therefore generate windfall profits. ***Unison comment: EDBs do not earn return on assets funded or part funded via capital contributions.***

Submitter	Issue and Unison's position
Fonterra	**Oppose** Pg 1. Deliverability is another important issue. As the Commission has identified in the Transpower RCP4, there is a high probability that EDBs will not be able to secure the equipment and/or labour to align to their capital spend requests. **Support** This aspect should be managed through a separate use it or lose it mechanism. ***Unison comment: while we consider EDBs can deliver, we support UIOLI allowances to provide EDBs and customers that funding is available for large customer projects.***
Rewiring Aotearoa	**Neutral** Pg 2. We recommend the Commission more strongly incentivise utilisation rather than asset growth. Efficiency is about maximising the use of existing assets so a top priority for the industry should be obtaining data to better understand the utilisation of the LV networks. As data is obtained, EDB spending should be adjusted (down or up). ***Unison comment: we agree with the role and importance of data and LV visibility to direct or re-direct investment needs. We support the opex step change supporting more funding for LV Visibility for this purpose.***
	Opex
Alpine Energy	**Support** Pg 9. [38]. We recommend the Commission include the increase in network demand as an additional cost driver for network opex.
Aurora Energy	**Support** Pg 10. The DPP regime should also include a mechanism to reopen opex allowances when new step changes emerge during a DPP period. For example, the draft Electricity (Hazards from Trees) Amendment Regulations 2024 will result in increased costs for the industry if they are implemented as proposed.
Fonterra	**Support** Pg 2. Fonterra supports the use of reopeners to cover the potential operational costs for Non-traditional solutions (NTS) and we recommend that the Commission makes these as simple and low cost as possible as they do not need the level of scrutiny that a capital cost driven reopener requires.
PowerCo	**Support** Pg 1. We strongly encourage the Commission to consider a mechanism, such as additional opex reopeners or a single issue CPP to accommodate uncertain opex.
Wellington Electricity	**Support** Pg 32. Adding a new opex reopener or by adjusting the existing 'risk event' reopener to capture unavoidable increases in maintenance costs needed to maintain current quality levels.
	Price path and revenue path
Orion	**Support** Pg 21. There is also a lack of clarity in the documents around how the wash-up draw down balance for the first year are to be calculated. While we expect that the Commission is intending that wash up balances are calculated from information from two years earlier, as has been general practice,...

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Vector	**Support** Pg 46. We recommend the Commission publish guidelines on the LCC to assist stakeholders understand and implement this mechanism.
	INTSA
Major Users Electricity Group (MEUG)	**Oppose** The INTSA is still described as an additional mechanism for EDBs, with EDBs having to apply for it. This reinforces the status quo practice of EDBs continuing to build more network in line with historic approaches. Innovation should not be seen as an "add on;" rather, it should be considered BAU when operating distribution networks. ***Unison comment: non-traditional solutions will increasingly be implemented by EDBs following successful trials (some through INTSA and some otherwise absorbed into expenditure allowances). The regulatory regime, including IRIS incentivises that outcome.***
MEUG	**Support** Para [28]. The process for INTSA applications must be streamlined, to incentivise use of this options over Business as Usual (BAU) approaches. There should not be additional regulatory burden for EDBs.
MEUG	**Neutral** Para [28]. It is important that the Commission ensure sufficient focus is given to energy efficiency, as this is something that will benefit all consumers in the long-term. We need to avoid the risk of regulated EDBs spending the majority of the INTSA on high-tech devices and systems to aggregate load and control devices such as batteries, EV chargers and hot water cylinders to shift peak load (that don't reduce consumer bills) – rather than on energy efficiency (which does reduce consumer bills). The INTSA needs to be deployed for a range of options. ***Unison comment: with the proposed INTSA criteria seemingly supporting flexibility payments once, we support a change to the criteria or separate energy efficiency and demand-side management scheme in addition to the INTSA allowance.***
PowerCo	**Support** Pg 17. We understand the Commission is trying to capture the idea that innovation projects are typically a 'risker' activity, however we believe the criteria 'risker than BAU' is ambiguous and suggest the Commission changes this criterion to reflect 'uncertain' activities instead.
Vector	**Support** Pg 17. Alternatively, the Commission could consider implementing alternative flexibility mechanisms such as use-it-or-lose-it allowances. We consider these could be implemented in a way consistent with a low cost DPP, for example, through requiring auditor scrutiny.
Vector	**Support** Pg 25. The INTSA should expressly support net zero innovations, alongside energy efficiency and demand side management especially given the IM Review clarification note that ensures that page 26 of 47 the IM review framework give permissive consideration to s 5ZN of the Climate Change Response Act (CCRA).
Vector	**Support** Pg 26. Greater clarity is needed around how the EDB can demonstrate the eligibility criteria (i.e., that a project is riskier than 'business as usual') would better support applications.

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Wellington Electricity	**Support** Pg 37. We would support adding this ambitious option to the INTSA regime. This would provide an important tool for the development of a step change in distribution services that the proposed INTSA could not fund because of the 0.6% of maximum allowable revenue (MAR) funding limit.
	Quality
SolarZero	**Support** Pg 3. [7]. New technologies such as solar and batteries provide a new approach to resilience, as SolarZero proved during Cyclone Gabrielle. INTSA should be used to provide funding for EDB to identify new ways to increase resilience via the deployment of distributed energy resources. SAIDI and SAIFI need to be changed to recognise the benefits of distributed energy resources in "keeping the lights on". The QIS needs to be updated to encourage the adoption of new technologies such as solar and battery systems.
Vector	**Support** Pg 31. We recommend the Commission exclude outages that result from a direction or advice from FENZ and NIWA around fire risk.
Vector	**Support** Pg 32. [166]. To better promote regulatory certainty, we recommend the Commission publish enforcement guidelines. The sector has been expecting these guidelines for a number of years.
	Other
Alpine Energy	**Support** Pg 11. [49]. We recommend that the Commission address additional reporting requirements through separate consultation processes, specifically the Commission's TIDR.
Alpine Energy	**Support** Para [50]. We recommend that, as the Commission considers additional reporting requirements for EDBs, this is balanced by equal attention paid to opportunities to remove redundant and low-value reporting requirements.
MEUG	**Neutral** Para [32]. Enhanced reporting on network capacity (at a level digestible for consumers) would be a positive step, ahead of investigating capacity standards for future regulatory periods. MEUG would welcome the opportunity to discuss this idea further with both the Commission and EDBs. ***Unison comment: we acknowledge the format of the ID requirements may not be user-friendly. The ID requirements for EDBs, however, are already a significant administrative and resourcing burden and ultimately come at a cost to the consumer (including because of the assurance requirements). We support further engagement with MEUG about what we could provide outside of an ID requirement to address their concern.***
MEUG	**Oppose** Para [33]. Shift in balance of risk: 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

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	WACC percentile for EDBs (and Transpower) down from 65 percentile towards the 50th percentile. ***Unison comment: Flexibility mechanisms do not reduce the risk of underinvestment that is balanced again overinvestment when determining an appropriate WACC percentile. Flexibility mechanisms respond to uncertain events or conditions at the reset.*** ***In any event, during the Input Methodologies 2023 Review, the 'Big 6' commissioned Oxera Economics to review the Commission's WACC methodology and the appropriate WACC percentile (reports footnoted).[1] Oxera concluded: "we find that the evidence supports the NZCC in targeting a WACC estimate that is in the range of the 65th to 75th percentile. This would suggest that the 70th percentile of the WACC distribution would be the most appropriate percentile to target."*** ***We also note Wellington Electricity's submission at page 33 The recent 'Trends in local lines company performance' report also shows that networks are earning a return below the regulatory WACC for both the DPP2 and part of the DPP3 period.***
MEUG	**Neutral** Para [33]. 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. ***Unison comment: our asset management plan forecasting for large connection and system growth projects relies primarily on direct relationships with our large customers. The timelines are customer driven based on customer commitment. IAENgg further scrutinised EDB asset management forecasting giving the Commission comfort in industry practice.***
Vector	**Support** Pg [37]. We propose that the Commission reconsiders the regulatory calendar and removes the requirement for AMP disclosures in years 1, 2 and 5 of the DPP. Instead in those years, EDBs could provide updates on their Year 4 AMP of the previous regulatory period, i.e., the AMP used to inform the reset. Those updates should not require director certification. Full AMPs would remain in place for years 3 and 4 to inform the draft and final decisions of the reset.

We thank the Commission for the workshops and engagement to date on the DPP4 reset.

Ngā mihi

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[1] https://comcom.govt.nz/__data/assets/pdf_file/0018/308502/27Big-Six27-EDBs-Oxera-report-Review-of-the-NZ-Commission27s-WACC-setting-methodology-Submission-on-IM-Review-CEPA-report-on-cost-of-capital-3-February-2023.pdf
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