

12 July 2024

Ben Woodham

Electricity Distribution Manager
Commerce Commission
44 The Terrace
Wellington, 6140

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

Horizon Energy Distribution Limited (Horizon Networks) submission on DPP4 Draft Decision Paper

1. Thank you for providing us the opportunity to make a submission on the *DPP4 Draft Decision Paper*.
2. Horizon Networks is a small trust-owned Electricity Distribution Business (EDB) serving over 25,000 consumers in the Eastern Bay of Plenty region. As a trust-owned EDB, we have a strong consumer focus and seek to benefit both our Shareholder Trust Horizon and the communities we serve.
3. DPP4 is being set in the context of an energy transition to increased electrification, increased integration of renewable generation on EDB networks, invest in resilience plans to mitigate climate change impacts, high inflation, and significant cost pressures facing EDBs and consumers.
4. It is important for the Commerce Commission to set a future-focused price path that allows EDBs to plan for and meet New Zealand's needs during this energy transition while recognising the economic constraints consumers will face over the next five years.
5. In addition to supporting the submission from the ENA, we wish to emphasise the following important issues:

Capital Expenditure

- Capping the CAPEX allowance to 125% of the reference period limits Horizon Networks' ability meet consumer needs.
- Increasing CAPEX allowances has a marginal impact on consumers.
- The reliance on reopeners or a CPP to address investment requirements means EDBs cannot plan appropriately ahead of the need.
- Using different reference periods for the draft and final decision on CAPEX allowances creates less predictable outcomes.

Operational Expenditure

- Use of historical OPEX as a base does not allow EDBs to meet forecast future need.
- Horizon Networks supports the inclusion of step changes in DPP4 and can provide additional information to help the Commerce Commission assess the step change.
- Changes to billing approach influence the assessment of ICP growth.

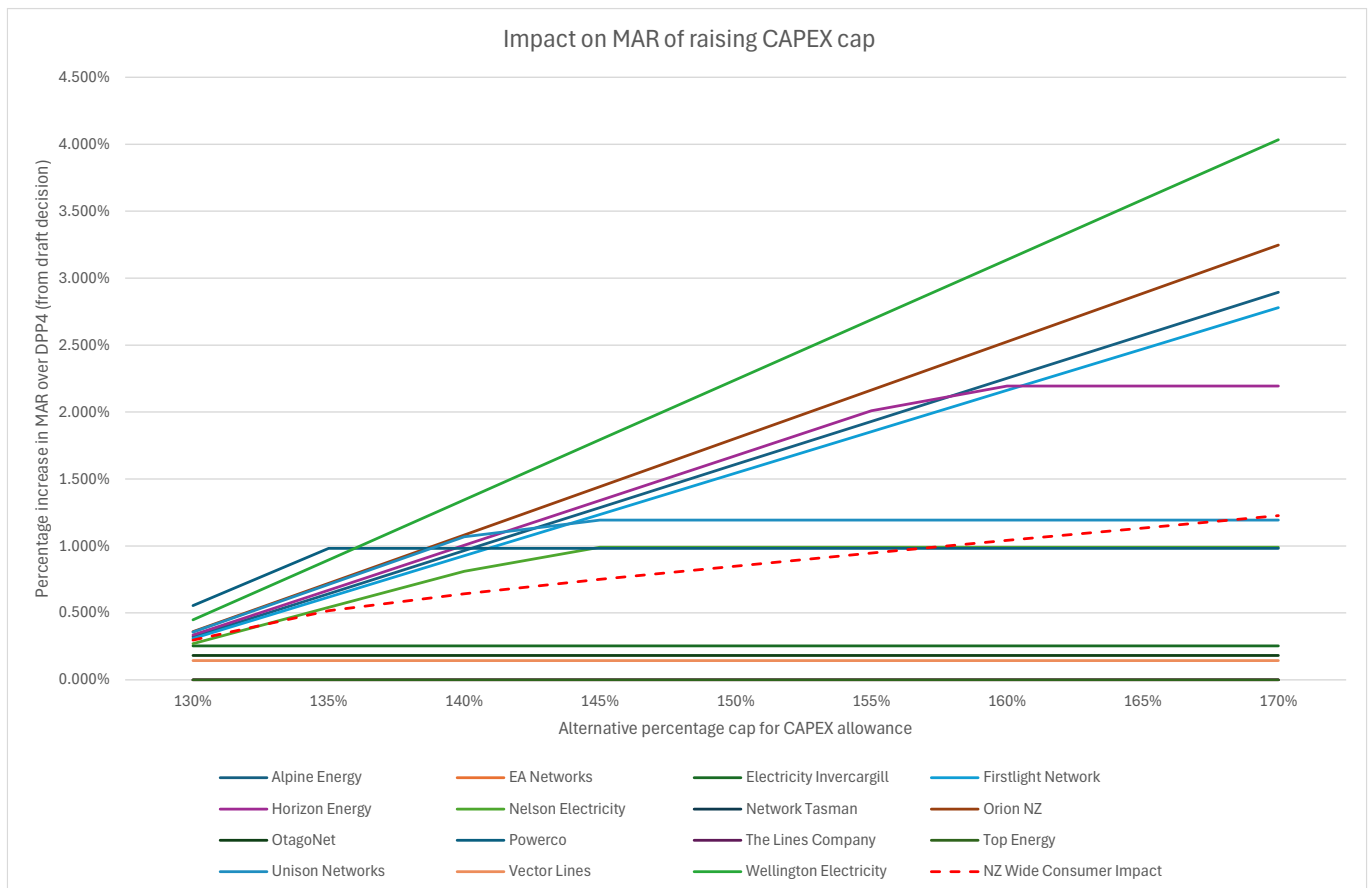
Capping the CAPEX allowance to 125% of the reference period limits Horizon Networks' ability to meet consumer needs.

6. Horizon Networks is ISO5501 certified. We have a risk-based approach to asset management to ensure there is an adequate balance between the level of investment and the risk to the assets Horizon Networks is responsible for.
7. In addition to managing the risk to the network, Horizon Networks currently operates within the DPP3 regulatory settings. Expenditure is managed to align with the allowances and expenditure expectations set by the Commerce Commission for DPP3. This includes, where reasonable deferring expenditure until DPP4.

8. This means that expenditure during the DPP4 reference period (2020-2024) has been constrained to align with DPP3 settings and allowances. Using 2020-2024 as the basis for setting allowances under DPP4 will result in unrealistic constraints on expenditure during the energy transition and limit Horizon Networks' ability to manage risk to the levels consumers are experiencing under DPP3.
9. By restricting capital expenditure in this way, the Commerce Commission is not considering future needs and is making an informed decision to under-fund EDBs.
10. This decision will incentivise EDBs to focus on reactive asset management and immediate need, over long-term planning, which delivers long-term consumer benefits.

Increasing the CAPEX allowance cap has a marginal impact on MAR.

11. Increasing the CAPEX allowance cap to more than 125% of the reference period will have a limited impact on consumer bills, relative to the additional spend.
12. Horizon Networks has used the Commerce Commission models to graph the impact of increasing the capital expenditure allowance cap on allowable revenues. Even increasing the CAPEX cap from 125% to 170% (everything else remaining unchanged) will only increase EDB's maximum allowable revenue by 1.2% across all EDBs.



13. The Commerce Commission has used the AMP when setting limits for CAPEX. We agree that the AMP is a realistic forecast of future network expenditure needs and is a suitable basis for setting capex allowance.
14. Applying a secondary cap of 125% of historic expenditure risks under-funding EDBs for their day-to-day operations, which will not enable some EDBs to balance the level of investment and the risk to the assets over DPP4.
15. Horizon Networks recognises that the Commerce Commission needs to balance setting allowances that enable EDBs to meet consumer demands, with the price impact this will have on consumers. A cap, tied to historic expenditure is one way of managing the consumer price impact of additional capital expenditure.
16. If a cap is considered necessary, Horizon Networks suggests a cap of 150% of the reference period (or forecast expenditure from the EDBs AMP if this is lower), provides a better balance between meeting future capital investment needs and consumer price impact.

17. At 150% of the reference period expenditure, maximum allowable revenue would increase by 0.85% across all EDBs from the DPP4 draft decision.
18. **Horizon Network recommends:** If a cap is deemed necessary, a cap of 150% of the reference period is applied for the DPP4 final decision. This will significantly reduce the forecast shortfall in CAPEX while managing the price impact due to increased capital investment needs in DPP4.

The reliance on reopeners or a CPP to address investment requirements means EDBs cannot plan appropriately ahead of the need.

19. Horizon Networks understands that the Commerce Commission intends to rely on reopeners to address uncertainty in the timing and need of large projects and to mitigate the consequences of constraining expenditure to 125% of the reference period.
20. Horizon Networks has two concerns regarding the reopener process.
21. Firstly, the reopener process is opaque.
 - The Commerce Commission has not made its process or the expectations regarding reopeners clear.
 - As a result, EDBs need to anticipate the Commerce Commission's expectations when developing the format and content for a reopener application.
 - This lack of a transparent and accessible process
 - i. Leads to an inefficient use of EDBs limited resources to interpret and meet Commerce Commission expectations.
 - ii. Creates a real risk that the Commerce Commission will decline reopeners due to incorrect assumptions regarding the Commerce Commissions expectations, rather than because the reopener does not meet the criteria or is not in the interests of consumers.
22. Secondly, the reopener process creates deliverability risks.
 - As a prudent network operator, Horizon Networks works with our field service providers to plan our work programme, including training staff and ensuring tools and equipment (including long lead time material) are available when the projects are ready to start. This forward-looking approach to our work programme helps ensure we can deliver to plan.
 - Reliance on reopeners does not allow Horizon Networks to undertake forward planning for the pipeline of work. This increases costs and creates timing and deliverability risks.
 - For example, we anticipate needing to build a new substation towards the end of the DPP4 period. In order for our field service provider to have skilled, experienced staff ready for that project, they need to be recruiting and training staff now. That is not possible when we cannot signal this within our work programme and will not know the outcome of any potential reopener application for several years.

Using different reference periods for the draft and final decision on CAPEX allowances creates less predictable outcomes.

23. Horizon Networks notes that the Commerce Commission has used information from 2019-2023 for the draft decision but will use information from 2020-2024 for the final decision.
24. This increases volatility in the outcome, where differences in EDBs draft CAPEX allowances and final CAPEX allowances, are driven solely by the change in reference period.
25. This volatility can make it difficult for EDBs to assess the future impact of the DPP.
26. The use of a stable reference period, using AMP forecasts where final data is not yet available would reduce the volatility of the draft decision and help ensure and Commerce Commission is providing a draft decision that is more in line with the final decision.

The use of historical OPEX as a base does not allow EDBs to meet forecast future need.

27. An escalating CAPEX programme and significantly different operating environment are driving increased OPEX costs. These costs are not covered by the base-step-trend approach to OPEX allowances.
28. Additionally, the nature of the reopener process does not allow for increased OPEX needs to be considered. For example, Horizon Networks anticipates increased vegetation management costs in DPP4 following an upcoming LIDAR survey planned for 2026.
29. No reopener mechanism exists to allow Horizon Networks to apply to reopen the price path due to additional vegetation management costs, even if those costs are realistic and quantifiable. The only option is to request a variation of the quality standards, on the basis that a lower quality standard better reflects realistically achievable performance given the level of investment provided for in the forecast allowable revenue of the DPP determination.
30. A necessary reduction in quality standards, to fit expenditure within DPP allowances is unlikely to be in the long-term interests of consumers.

Horizon Networks supports the inclusion of step changes in DPP4 and can provide additional information to help the Commerce Commission assess the step change.

31. Horizon Networks supports the inclusion of step changes in DPP4. We appreciate that the Commerce Commission has taken a pragmatic approach to the step change criteria to allow evidence-based step changes to be incorporated into the price/quality path.
32. As detailed in our response below, we are now able to provide additional information regarding specific, known step changes that Horizon Networks will be experiencing.

Changes to billing approach influence the assessment of ICP growth.

33. Horizon Networks notes that the Commerce Commission has based ICP count information on Schedule 8 of the information disclosures. This Schedule reports the number of billed ICPs on the network.
34. Until 2022 Horizon Networks billed both 'active' and 'inactive' status ICPs¹. This is because regardless of the consumption, the ICPs would be using the service of the network.
35. Since 2022 Horizon Networks has only billed 'active' status ICPs. As a result for the 2022 and 2023 disclosure years, the number of billed ICPs in Schedule 8 dropped.
36. As detailed in our response below, Horizon Networks has identified an alternative estimate of ICP growth that compensates for this change in billing approach.

¹ Both 'active' and 'inactive' status are managed by the trader at the ICP. 'Active' indicates that the ICP is electrically connected, and typically is using the network and consuming electricity. 'Inactive' typically indicates the ICP is temporarily disconnected but could start consuming electricity at any time.

In conclusion, the Commerce Commission needs to ensure the DPP4 final decision is an informed, realistic expectation of EDBs expenditure over the DPP4 period

38. EDBs need appropriate funding to support appropriate investment to help achieve New Zealand's electrification goals.
39. Small EDBs such as Horizon Networks need allowances that support infrequent, but high-cost expenditure to meet consumer needs. The reliance on 'just in time' reopeners creates uncertainty and fosters deliverability risks.
40. It is critical for current and future consumers that the Commerce Commission get the allowances right and that EDBs are not penalised for making informed, risk-based decisions that defer expenditure into DPP4.

Yours Sincerely



Jonathon Staite
Regulatory Manager

Jonathon.Staite@hegroup.nz

HORIZON ENERGY DISTRIBUTION LIMITED

Request for feedback on DPP4 draft decisions

Capital expenditure (CAPEX)

1. Capex

C1	Use EDB 2024 AMP forecasts as the starting point for setting capex allowances.
C2	Set the capex allowance in constant dollars based on the lower of an EDB’s total forecast capex or 125% of its historical reference period capex, with an adjustment for forecast capital contributions.
C3	Use a five-year historical reference period for setting capex allowances [2019 to 2023 for the draft and 2020 to 2024 for the final determination] with an additional cost escalation adjustment.
C4	Include an allowance for the cost of financing, scaled in proportion to the capex allowance.
C5	Include an allowance for the value of considerations for vested assets and spur assets equal to 2024 AMP forecasts.
C6	Use the All-Groups CGPI forecast with an additional adjustment to escalate the constant price capex allowance to a nominal allowance.

Views/Response:

C1: Use EDB 2024 AMP forecasts as the starting point for setting capex allowances.

Horizon Networks supports the use of EDB 2024 AMP forecasts as the starting point for setting CAPEX allowances.

Horizon Network’s AMP is a realistic forecast of network expenditure, that is a suitable basis for setting CAPEX allowance. We use a risk-based approach to identify and prioritise the most pressing capital investment needs and impacts while considering the costs of financing those capex decisions and the impact of regulatory settings on recovering those costs. This is backed up by ISO55001 certification which demonstrates we have well established processes, systems and risk-based frameworks to ensure that there is an adequate balance between the level of investments and the risks to its assets. We have also undertaken an external review of our asset risk model, which confirms we are following good industry practice.

The Commerce Commission can have confidence that the AMP is realistic and considers both consumer need and capital expenditure limitations.

C2: Set the CAPEX allowance in constant dollars based on the lower of an EDB’s total forecast capex or 125% of its historical reference period capex, with an adjustment for forecast capital contributions

Setting a CAPEX cap of 125% of the historical reference period limits Horizon Networks' ability to meet future needs and manage the risks of outages on the network.

As covered in detail in our submission on the [DPP4 capex workshop](#), Horizon Networks AMP uses a risk-based approach to identify and prioritise the most pressing capital investment needs.

Forecast necessary expenditure during DPP4 includes large complex projects such as the planned conversion of our Opotiki supply from 11kV to 33kV, power transformer upgrade at Kope, and new substations at CBD and Manawahe. These significant projects are not captured by the historic reference period uplift.

As a small EDB, when these types of projects occur, they make up a large percentage of our capital expenditure programme. For example, a single \$2.8 million capital project in a financial year would consume the full capital expenditure allowance increment for that year.

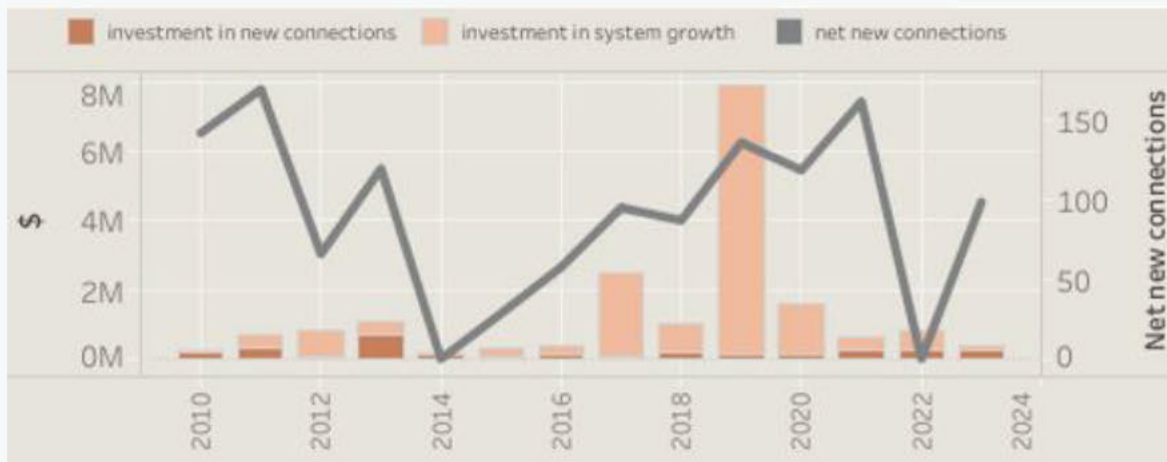
Request for feedback on DPP4 draft decisions

As a prudent network operator, we have applied a risk-based approach and need to deliver multiple large projects during DPP4, plus additional smaller projects to meet consumer needs and existing quality standards.

The scale of these projects, relative to our historic expenditure means we don't have the capacity or flexibility within our capital expenditure programme to reprioritise or defer expenditure to deliver these projects within the DPP4 capital expenditure allowance.

By applying a percentage cap based on historical expenditure, the Commerce Commission is penalising EDBs that have sought to constrain their expenditure during the reference period. This percentage cap also disadvantages EDBs that have a relatively low 'typical' capital expenditure but need to implement infrequent, relatively high-cost projects during DPP4.

As reported by the Commerce Commission in its "Trends in local lines company performance"² Horizon Networks' most recent significant investments in system growth were in 2017 and 2019. These 'lumpy' investments are not considered when setting the DPP4 price path, meaning Horizon Networks is not going to be funded to support large, infrequent system growth projects. These are the types of projects we will be needing to support over DPP4.



In its draft decision paper, the Commerce Commission sets out the expectation that EDBs who consider the CAPEX allowance is insufficient to meet their needs can apply for a reopener. The Commerce Commission will require EDBs to create a prioritised list of projects and programmes which would outline how they intend to spend their capex allowances during the period.

Under a risk-based approach to capital expenditure, this may appear reasonable however does not acknowledge the fluid nature of expenditure, where new information and updated forecasts can lead to changing investment decisions. As a result, priorities that were originally planned to fit within the capital expenditure limitations of the default price path may suddenly fall outside due to reprioritisation.

Additionally, the Commerce Commission's reopener process is opaque with unclear timelines and expectations. This creates a high level of uncertainty for EDBs, and for consumers who rely on us to provide a secure, reliable supply of electricity.

² <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-distributor-performance-and-data/trends-in-local-lines-company-performance>

Request for feedback on DPP4 draft decisions

We work closely with our field services providers to plan our work programme, including where necessary training staff ahead of need. This forward-looking approach to our work programme helps ensure we can upgrade and maintain the network in a timely manner.

Reliance on reopeners does not allow Horizon Networks to undertake this forward planning and creates timing and deliverability risks because we are unable to take steps to ensure the resources (staff, tools, equipment) until the Commerce Commission has decided if the reopener should be approved.

Overall, it is disappointing and concerning that the Commerce Commission is making an informed decision to under-fund EDBs and still expect EDBs to meet consumer needs and have no material deterioration in quality.

C3: Use a five-year historical reference period for setting capex allowances [2019 to 2023 for the draft and 2020 to 2024 for the final determination] with an additional cost escalation adjustment

Horizon Networks does not support the use of a different historical reference period for the draft and final decision. This approach creates a less predictable final decision.

The use of a stable reference period, using AMP forecasts where final data is not yet available could address this issue and support a more informed draft decision.

Operating expenditure (opex)
1. Opex

O1.1	Apply a base-step-trend approach to forecasting opex.
O1.2	Use 2024 as the base year. [2024 AMP forecasts used for the draft decision]

Views/Response:

An escalating capital expenditure programme and a very different operating environment from DPP3 are driving increased operational expenditure needs which are not covered by the base-step-trend approach.

We acknowledge that the Commerce Commission has been pragmatic when considering step changes, and the impact of a larger capital expenditure programme on operational expenditure. As a result, the outcome is more realistic but does not consider the forecast need reported in the AMP.

As a result, Horizon Networks remains concerned that operational expenditure allowances will not be sufficient to meet forecast need, and the nature of the reopener process may not allow operational expenditure allowances to be reconsidered until DPP5.

2. Opex step changes

O2.1	Consider proposed step-changes against a defined set of factors, incorporating judgement.
O2.2	Step-changes should be significant.
O2.3	Step-changes should be adequately justified with reasonable evidence in the circumstances.
O2.4	Step-changes must not be included elsewhere in expenditure allowances.
O2.5	Step-changes should have a driver outside the control of a prudent and efficient supplier.
O2.6	Step-changes should be widely applicable.
O3.1	Include a step-change to reflect increasing insurance costs.
O3.2	Include a step-change for greater consumer engagement.
O3.3	Include a step-change for low voltage (LV) monitoring and smart meter data.
O3.4	Include a step-change for increasing cyber-security costs.
O3.5	Include a step-change for the costs of software-as-a-service (SaaS).
O3.6	Include a negative step-change in Aurora's indicative forecasts to capture the end of its CPP spend.
O3.7	Cap aggregate step-changes (in real terms) at 5% of trended opex excluding step-changes.

Views/Response:

Horizon Networks appreciates the pragmatic approach the Commerce Commission has applied to OPEX step changes, which has helped ensure some clear, evidence-based step changes are incorporated into the price/quality path.

[Redacted]

[Redacted]

[Redacted]

03.7 Cap aggregate step-changes (in real terms) at 5% of trended opex excluding step-changes.

We note that the Commerce Commission is proposing to cap aggregate step changes (in real terms).

While we acknowledge the proposed cap is a simple option to help manage step changes, the use of a percentage disadvantages smaller EDBs, who for some changes such as SaaS may face the same absolute step change, regardless of the base OPEX³.

Horizon Network recommends: The Commerce Commission apply a secondary, fixed dollar cap to address the bias that makes it more difficult for small EDBs who face proportionately larger OPEX step changes for certain types of step changes⁴.

3. Opex trend factors

O4.1	Escalate all opex costs using the same cost escalator.
O4.2	Escalate opex using the all-industries labour cost (60% weighting) and a producers' price (40%) indices, plus a 0.3% uplift to reflect EDB-specific inflation.
O5.1	Scale growth forecast separately for network and non-network opex.
O5.2	Use 2018-2024 as the reference period for scale elasticities and driver projections [2024 data available post-draft].
O5.3	Forecast network opex scale growth with line length (elasticity 0.52) and ICPs (0.45).
O5.4	Forecast non-network opex scale growth with line length (elasticity 0.35), ICPs (0.22), capex (0.30).
O5.5	Forecast lines length extrapolated using recent growth rate trend, and irregular data adjusted.
O5.6	Forecast ICP count extrapolated using recent growth rate trend, and irregular data adjusted.
O5.7	Forecast capex based on a constant growth.
O6.1	Apply an opex partial productivity factor of 0%.

Views/Response

05.6 Forecast ICP count extrapolated using recent growth rate trend, and irregular data adjusted.

³ For example, a payroll system may cost \$100,000 regardless of if the EDB serves one customer or a hundred thousand customers.

⁴ For example a cap of the higher of \$5 million, or 5% of trended opex excluding step changes.

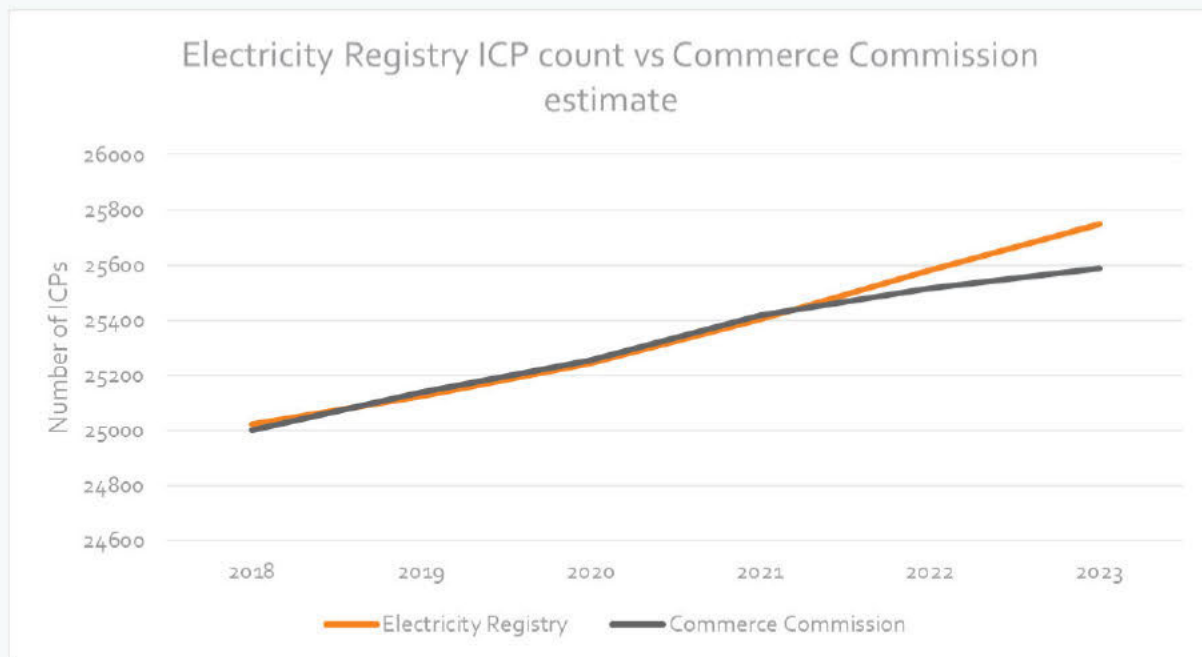
Horizon Networks notes that the OPEX trend calculations have been adjusted for irregular ICP growth on the Horizon Network for 2022 and 2023.

The reason for this “irregular ICP growth” is because until 2022 we billed ICPs with the status of ‘active’ or ‘inactive’ on the registry. This was done because ‘inactive’ ICPs are still connected to the network but have typically been isolated from the network by the retailer to prevent the ICP from consuming.

For the 2022 and 2023 disclosure years, the number of ICPs billed dropped because we stopped billing ‘inactive’ ICPs, even though the ICPs were still connected to our network.

We appreciate that the Commerce Commission has taken steps to address the step change irregularity in the billed ICP count for 2022 and 2023. We would like to take this opportunity to provide an alternative estimate of the ICP growth rate within Horizon Networks, using Electricity Registry data.

Based on the electricity registry information, we believe the **ICP growth trend for Horizon Networks should be 0.66%**, not 0.43% as calculated.



Innovation and section 54Q incentives

5. Innovation, energy efficiency and demand-side management

U ₁	Introduce an Innovation and Non-traditional Solutions Allowance (INTSA), capped at 0.6%.
U ₂	Incentivise energy efficiency and demand-side management incentives through the INTSA.
U ₃	Do not introduce a reduction of energy losses incentive.

Views/Response:

Horizon Networks supports the introduction of the ex-ante INTSA allowance of 0.6% of MAR over the regulatory period for one or more projects. We believe the introduction and use of this allowance is essential to support EDBs undertaking innovation and non-traditional solution projects.

We are concerned that the requirement for projects to be 'riskier than BAU' may be subjective. It would be useful to define this or provide some examples of projects that would be eligible for up to 75% of the expenditure to help EDBs assess what projects may be eligible for the INTSA allowance.

Quality

6. Quality standards

QS1	Maintain separate standards for planned and unplanned SAIDI and SAIFI.
QS2	Retain annual unplanned reliability standards for SAIDI and SAIFI.
QS3	Retain the 2.0 standard deviation buffer for setting the unplanned interruptions reliability standards.
QS4	Maintain regulatory period length standard for planned SAIDI and SAIFI.
QS5	Change the planned reliability buffer for the planned interruptions reliability standard to be a 100% uplift on the historic average, capped at a +/- 10% movement from the current standard.
QS6	De-weight the impact of notified planned interruptions by 50% in the assessment of compliance with planned interruption standards.
QS7	Retain SAIDI extreme event standard set at 120 SAIDI minutes or 6,000,000 customer minutes where specified.
QS8	Retain enhanced automatic reporting following a breach of a quality standard.
QS9	No new quality measures are introduced as part of the quality standards applying in DPP4.
QS10	Set interruptions quality standards and incentives for Aurora transitioning from a CPP to the DPP on the same basis as for other EDBs on the DPP.
QS11	Retain the requirement for reasonable reallocation of SAIDI and SAIFI following an asset transfer between EDBs.

Views/Response

Horizon Networks supports the decision not to introduce any new quality measures.

Horizon Networks supports the ENA submission.

7. Quality incentives

QIS1	Retain the revenue-linked quality incentive scheme for planned and unplanned SAIDI. SAIFI is excluded.
QIS2	Unplanned incentive rates are informed by the value of lost load (VOLL), discounted by (1-IRIS retention factor) to reflect expenditure incentives, and a further 10% to reflect quality standard incentives, with VOLL set at \$35,374r/MWh.
QIS3	Planned incentive rates are reduced by 35% relative to the unplanned incentive rate.
QIS4	Planned 'notified' interruptions are reduced by 75% relative to the unplanned incentive rate to reflect less inconvenience to consumers.
QIS5	Incentives are revenue-neutral at the average of the reference period, also known as the target.
QIS6	The SAIDI caps (which determine maximum losses) are set equal to the SAIDI limits for planned and unplanned SAIDI.
QIS7	The SAIDI collars (which determine maximum gains) are set at 0 for unplanned and planned SAIDI.
QIS8	Cap revenue at risk at 2% of actual net allowable revenue.
QIS9	Do not implement any new incentive schemes.
QIS10	Do not make an explicit adjustment to match the duration of retention benefits between EDBs and consumers.

Views/Response:

Horizon Networks supports the decision to not implement any new incentive schemes.

Horizon Networks supports the ENA submission.

8. Normalisation

N1	Normalisation only applies to unplanned interruptions, which are the only initiators of a major event day.
N2	Retain the normalisation approach used in DPP3, being: <ul style="list-style-type: none"> - define a major event as 24-hour rolling periods (assessed in 30-minute blocks) - the major event boundary value has been identified as the 1104th highest rolling 24-hour period for SAIDI and SAIFI over the 10-year reference period - normalisation is applied on half-hour blocks, within a major event, where the SAIDI figure exceeds 1/48th of the boundary value, and - treat major events by replacing any half-hour that is greater than 1/48th of the boundary value with 1/48th of the boundary value if that half-hour is part of the major event (can exceed 24 hours in duration).
N3	SAIDI and SAIFI major events are triggered independently.
N4	Set a higher boundary for very small EDBs.
N5	Retain additional reporting by EDBs for each unplanned major event in its compliance statement consistent with DPP3.

Views/Response:

Horizon Networks supports the retention of the DPP3 normalisation approach. This approach mitigates the impact of major events on quality standard incentives.

Horizon Networks supports the ENA submission.

9. Reference period

RP1	Use a 10-year reference period from 1 April 2013 to 31 March 2023 to inform the parameters for unplanned interruptions reliability standards and incentives, with the period adjusted to 1 April 2014 to 31 March 2024 for the final determination.
RP2	Apply a reference period for planned interruptions of 2017 – 2023 for the draft decision, extended to 2017 – 2024 for the final decision.
RP3	Retain the cap on inter-period movement, ±5% for unplanned interruptions for both the SAIDI and SAIFI unplanned target and also apply this to the SAIDI and SAIFI unplanned limits.
RP4	Make no explicit step changes to reliability targets or incentives.
RP5	Make no explicit adjustments for instances of non-compliance contained within the unplanned interruption reference period dataset.
RP6	EDBs must record successive interruptions on the same basis they employed in responding to the s 53ZD notice.
RP7	Interruptions directly associated with an approved INTSA project are excluded for calculation of SAIDI and SAIFI values up to a cap of 0.5% of the respective SAIDI and SAIFI limit.

Views/ Response:

Horizon Networks supports the continued use of “standard” SAIFI where it was provided in the 53ZD notice.

Horizon Networks supports the ENA submission.

Revenue path

10. Price path

P1	Set starting prices based on the current and projected profitability of each supplier using a building blocks allowable revenue (BBAR) model.
P2	Set a default rate of change relative to CPI (X-factor) of 0%.
P3	Set alternative X-factors such that, in most cases, initial price shock is limited to 20% in real per ICP. terms, and the change between years within the regulatory period to 10% (based on the price shock and notional financeability assessments).
P4	Assess price shocks on a real revenue per ICP basis, incorporating wash-ups and IRIS.
P5	Assess notional financeability using FFO/Debt and Debt/EBITDA ratios.

Views/Response:

Horizon Networks supports the use of individual EDB x-factors, and for the DPP4 settings to allow the recovery of all DPP4 revenue within the regulatory period.

Horizon Networks supports the ENA submission.

11. IRIS

I1	IRIS retention rate for capex is equivalent to the opex rate.
I2	Determine IRIS opex and capex forecasts in real terms (inflated by CPI).

Views/Response:

Horizon Networks supports the ENA submission, and that Customer Connection capex should be excluded from IRIS.

12. Revenue Path

R1.1	Apply a revenue cap with wash-up as the form of control.
R1.2	Forecast CPI based on the four-quarter average change in CPI between the first year of the regulatory period and the current year.
R1.3	Apply a 90% "voluntary undercharging" limit (or an alternative in some cases).
R1.4	Include a large connection contract (LCC) wash-up term in the wash-up accrual formula, to avoid recovery of LCC revenue from other customers.
R1.5	Allow distributors to agree a reasonable reallocation of revenue following an asset transfer.
R2.1	Apply the revenue smoothing limit based on forecast net allowable revenue for the current year and CPI-adjusted recoverable costs from the prior year.

R2.2	Apply a revenue smoothing limit of 10%.
R3.1	Implement the revenue wash-up by specifying a re-run of the DPP4 financial model.
R3.2	Calculate the Y1 inflation wash-up based on the four-quarter average change in inflation between Y0 and Y1.
R3.3	Do not specify base revenue wash-up draw down amounts for DPP4.
R3.4	Calculate the time-value of money of the opening wash-up balance using one year of the DPP3 WACC and one year of a blended DPP3/DPP4 WACC (for a value of 5.25%). [This will be updated for the final decision.]

Views/ Response:

Horizon Networks supports the ENA submission.

13. Other Matters

X1	Retain the current five-year regulatory period length.
X2	Include Aurora in the DPP4 expenditure and revenue setting process.
X3	Retain the CPP application timings set for DPP3.

Views/Response:

Horizon Networks appreciates the Commerce Commission setting CPP deadlines and communicating CPP timeframes that would allow EDBs to set prices based on the CPP decision. These deadlines appear reasonable.

We note that the DPP4 decisions and the need for increased expenditure due to decarbonisation are likely to result in an increase in CPP applications.

14. Other inputs to the financial model

M1	Weighted average cost of capital (WACC) of 7.37%. [This will be updated for the final decision.]
M2	Include an allowance for disposed assets, based on historical levels.
M3	Forecast depreciation on existing assets based on information provided by each EDB.
M4	Use base year data from 2024 Information Disclosures in our final decisions, and data from 2023 Information Disclosures for our draft decisions.
M5	For CPI forecasts, use the most recently available RBNZ MPS forecasts from when the WACC was determined.

Views/Response:

Horizon Networks notes that the use of forecast depreciation on existing assets based on information provided by each EDB was a change introduced in the recent Input Methodologies (IM) changes.

This IM change had a material impact on how depreciation is calculated for DPP4, however the Commerce Commission did not highlight the materiality of this change in its consultation or decision paper.

Because the materiality of this decision was not highlighted or quantified in the draft decision or final decision, this change received no submissions. Horizon Networks believes this change was 'lost' within the large number of changes made to the IM's.

As a result, Horizon Networks questions if the change in approach to depreciation was genuinely consulted on by the Commerce Commission. Horizon Networks is concerned that the IM consultation did not provide enough information to enable EDBs to be adequately informed so as to make intelligent and useful responses⁵.

This creates uncertainty regarding the application of depreciation within the financial model for the draft decision.

⁵ https://www.lac.org.nz/guidelines/legislation-guidelines-2021-edition/new-powers-and-entities-2/chapter-19/#_ftnref2