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Tēnā koe Ben

UNISON NETWORKS LIMITED SUBMISSION ON EDB DPP4 DRAFT DECISION

Unison Networks Limited (**Unison**) appreciates the five-week period to submit on this Draft DPP4 Decision. The consumer price impact and financeability models released by the Commission improve the transparency of the Commission's judgements. This has enabled greater analysis and understanding of the challenging balance required to promote Part 4 in this reset. Unison's primary recommendations on key decisions we support in part are summarised below.

WHY WE SUPPORT	RECOMMENDATION	CONSUMER GAIN
1. C1, C2.: Uplift to capex allowances beyond historical.		
Context of DPP4 and necessary focus on building growth and network resilience.	At least an 130% uplift, at an additional 20 cents per month impact to Unison's consumers. ¹	Faster and more cost-efficient investment in resilience and customer driven projects (EV connection charges, process heat conversions, solar farms). Improves deliverability to accurately scale workforce.
02.1 – 3.7: Opex step changes		
Acknowledges the significance and value for consumers in those categories of expenditure.	Remove the aggregate 5% cap of total operating expenditure which may drive imprudent trade-offs.	Restores incentives to invest in risk mitigation (insurance and cybersecurity), new technology to access future efficiencies and lower distribution and retail costs (Software as a Service, LV Visibility), and meeting consumers expectations (consumer engagement).
5. U1 and U2., 9. RP7 The innovation and non-traditional solutions allowance (INTSA) is a substantial improvement		
EDBs operating expenditure allowances are heavily constrained. Additional funding is required.	Amend criteria. Remove the insufficient 0.5% SAIDI/SAIFI exemption cap.	Removes disincentive and strengthens incentives to invest in innovation and non-traditional solutions.
10. P1 – P5: 20% price uplift into year 1 of DPP4.		
Rebalances the under recovery provided by the regime during DPP3 to restore cashflows.	If the WACC drops preserve the starting price uplift of 20% and adjust down the alternate rate of change to maintain proposed financeability metrics.	Enables investment at the required rate to deliver on growth and resilience to meet demand.

¹ Applying the generic approach to the Consumer Price Impact model released.

Unison supports Electricity Networks Aotearoa's submission. We have not repeated content from their submission, or substantively on Unison's previous submissions on the Input Methodologies Review 2023 or DPP4 processes to date.

This submission is not confidential, and we acknowledge it will be published on the website. Support for a step change for consumer engagement expenditure into DPP4 is submitted separately and **confidentially** (as the suite of step change information includes commercially sensitive information).

We look forward to considering stakeholder feedback through the cross-submission process.

Nakū noa, nā

Rachael Balasingam
REGULATORY MANAGER



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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 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.

Unison supports reliance on EDBs' forecasts for DPP4. This is appropriate for a low-cost Default Price-Path (**DPP**) and consistent with the 'comfort' the Commission took from IAENgg's review of 2023 Asset Management Plans (**IAENgg AMP Review**) based on EDBs' forecasting practices being 'broadly aligned to good industry practice'.²

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.

The stark change in context between DPP3 and DPP4 sits uncomfortably with permitting only 5 percentage points more capex expenditure over the 2026-2030 period. The Commission are approaching DPP4 well informed about the impacts of climate change and consumer expectations of improved resilience, global and national progress to electrify, and with verified methodologies relating to forecasting increasing growth in connection capex and system growth work as provided by the IAENgg AMP Review.³

The proportionate impact on consumer prices because of the increase in capital expenditure (**capex**) in DPP4 (from the DPP3 approach) is small comprising 13% of the Forecast Net Allowable Revenue (**FNAR**) between RY21 and RY26 over the period. **Of the \$15.58 per month price impact quantified in the Draft Decision for Unison's consumers, only 98 cents per month relates to giving Unison more capex.** The 125% increase⁴ therefore makes up 6% of the impact of the consumer bill for RY26 and is 19 cents per month for Unison's consumers (applying the Draft Decision and consumer price impact model released).

² https://comcom.govt.nz/_data/assets/pdf_file/0015/343410/Commerce-Commission-Using-the-E2809CNZ-EDB-2023-AMP-ReviewE2809D-report-within-the-DPP4-Reset-12-February-2024.pdf, pg 1.

³ https://comcom.govt.nz/_data/assets/pdf_file/0016/343411/IAENgg-NZ-EDB-2023-AMP-Review-Forecasting-and-Planning-Assessment-Report-29-January-2024.pdf.

⁴ To historical constant numbers.

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The Commission has emphasised resilience as a focus for networks and valued by consumers. **Raising the capex cap by an additional 5 percentage points (to 130%) would only raise consumers' prices** (as modelled by the Commission) **by 20 cents per month in the first year of DPP4**. What it will give consumers is greater resilience, the ability for networks to invest more in connection capex like increasing commercial EV chargers and process heat conversions (noting that reopener criteria require a \$2.5m or 1% FNAR impact). It will also promote deliverability by providing funding certainty as contracting services scale to a more appropriate industry wide level to meet the demand for DPP4 and DPP5.

The industry has and will continue to deliver

We acknowledge the concern that deliverability is a constraint to EDBs' forecast work programmes. Unison disagrees, having experienced growing capex work profiles in DPP3 and succeeding in delivering forecast work. DPP4 continues that established trend.

At an industry level, we consider that certainty of funding will dictate deliverability. The 125% capex cap reduces certainty and will dampen growth in contractors to deliver both the DPP4 work programmes and DPP5. The ten-year asset management profiles of EDBs shows significant investment in growth and resilience over both regulatory periods. Constraining DPP4 deliverability risks a more adverse longer-term impact for consumers as seen in examples from around the world where networks have struggled to keep up with demand growth and new connections. Aging infrastructure, combined with increased energy consumption and the growing demand for renewable energy integration, has led to rolling blackouts and power outages in California.⁵ In regions like South Australia, there have been issues with maintaining a reliable electricity supply, particularly during extreme weather events. The transition to renewable energy sources and the challenges of integrating them into the existing grid have resulted in supply disruptions.⁶

Raise the cap to 130% or higher

Part 4 would be promoted by an increased capex cap of 130% or higher, because:

- The Commission promotes least cost lifecycle basis asset management, which is an intergenerational task ensuring the asset fleet continues to be prudently and efficiently managed each regulatory period:
 - Today's consumers pay less to maintain today's asset fleet because of prudent and efficient decisions of the past.
 - Future consumers will pay a comparatively higher price to rectify failures in this regulatory period, which will flow into future inefficiencies (than being prudent today).
- Deliverability challenges are exacerbated by:
 - disturbing pre-set work programmes by shuffling resourcing during the period to defer work programmes and deliver new work instead;⁷

⁵ <https://www.caiso.com/Documents/Preliminary-Root-Cause-Analysis-Rotating-Outages-August-2020.pdf>.

⁶ [2022-integrated-system-plan-isp.pdf \(aemo.com.au\)](https://www.aemo.com.au/2022-integrated-system-plan-isp.pdf)

⁷ https://comcom.govt.nz/_data/assets/pdf_file/0036/339777/Unison-Networks-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf, pg 12.

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- preventing contracting resource from growing resource with certainty to match incoming demand, and to continue to deliver a prudent and efficient work programme; and
 - risking deferrals into DPP5 with a similar growth trajectory for system growth and connection capex (which merely pushes a bigger problem to that regulatory period based on EDBs' asset management plan forecasts).
- The Input Methodologies create broad criteria for reopener and CPP applications with untested interpretations (such as what is more appropriate for a CPP than a reopener). This will impact their efficiency and utility through DPP4 (noting that may improve with clear guidance). Uncertainty is increased by the lack of clarification about expectations for reprioritising asset renewal and replacement to support reopener applications.
 - Incentives to spend less than forecast remain within the IRIS but cannot be accessed with too low a capex cap. The higher retention rate of 33.18% increases the penalty and strengthens the incentive to achieve efficiencies. However, this will be undermined by setting allowances too low for most EDBs to access incentives. **IRIS has fundamentally been a penalty scheme in DPP3 demonstrated in the IRIS model released with the Draft Decision showing EDB total penalties of \$313m against \$1.1m incentives.**

A raised capex cap promotes more balanced incentives to invest (in upgraded, new and replaced assets as included in s 52A(1)(a)) on a least regrets and efficient basis. Coupled with the small consumer price impact, it will achieve a fairer outcome to promote least cost life cycle asset management and deliverability for the industry (a key step toward improving resilience and progressing to net-zero by 2050).⁸

The 125% capex cap impacts 11 EDBs (based on the Draft Decision approach). Applying the Capex Projections Model, an 130% capex cap or higher (135%) addresses EDBs forecast work programmes more appropriately in a low cost DPP setting providing appropriate funding for most EDBs:

[continued next page]

⁸ https://comcom.govt.nz/_data/assets/pdf_file/0018/323811/Unison-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf, paras 13 – 16;
https://comcom.govt.nz/_data/assets/pdf_file/0036/339777/Unison-Networks-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf, Q1, pg 6, Q4, pgs 11 and 12.

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EDB / Capex threshold	125%	130%	135%
Alpine Energy	68%	71%	74%
Aurora Energy	100%	100%	100%
EA Networks	100%	100%	100%
Electricity Invercargill	97%	100%	100%
Firstlight Network	73%	76%	79%
Horizon Energy	79%	82%	76%
Nelson Electricity	87%	91%	94%
Network Tasman	100%	100%	100%
Orion NZ	67%	69%	94%
OtagoNet	99%	100%	100%
Powerco	93%	97%	100%
The Lines Company	100%	100%	100%
Top Energy	100%	100%	100%
Unison Networks	88%	92%	95%
Vector Lines	98%	100%	100%
Wellington Electricity	39%	41%	43%
Fully funded EDBs	5	8	9
% or total non-exempt EDBs	31%	50%	56%

Prudent and efficient asset management of networks in the short to medium term, to maintain quality, becomes of higher long-term value to consumers as work profiles continue to increase into DPP5 and 'catching up' on deferred renewal and replacement programmes becomes more constrained. While the five-year profile is more relevant to funding, **the ten-year profile is relevant to deliverability.**

Clarifying expectations about reprioritisation

EDBs require clear expectations or a framework to determine whether or how the Commission will assess prudent and efficient reprioritisation of asset renewal and replacement in a reopener (or CPP) application. The Draft Decision does not clarify the Commission's expectations about reprioritising to account for 'unfunded' expenditure.

A fair balance would be providing EDBs with certainty before the final decision (to account for the 2025-2035 asset management plan process) that it is appropriate to remove 'unfunded' connection capex and / or system growth projects above the reopener thresholds. That would ensure reopener applications could cleanly reference the exclusion from the 2025-2035 asset management plan and apply for foreseeable major capex projects as they materialise. The Commission's request for a prioritisation schedule would be incorporated in this process. Connection capex is volatile given customer demands change and many projects sit beneath reopener eligibility (for Unison, beneath \$2.5m for a foreseeable major capex project). An increase in smaller value individual projects may have a material impact on capex allowances and asset management planning (for example, a higher rate of commercial EV chargers in one year). Requests may respond to other policy or market incentives creating spikes and dips throughout the period (noting the lack

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of a policy change reopener category). A prioritisation schedule prepared now cannot foresee or protect EDBs from that fluctuation.

The Commission would be more usefully led by each asset management plan in the period, consistent with the comfort provided by the IAENgg Review. This is a different approach to DPP3 (which relied on the inclusion of a project within the 2019 asset management plan) but more consistent with implementing good asset management practice (which is necessarily fluid) and utilises the Information Disclosure requirements.

Unison's submission on the DPP4 Issues Paper reiterated the importance of the asset renewal and replacement programme to maintaining and building resilience in networks (as its consumers expect).⁹ As noted in the Draft Decision, Unison builds resilience into its renewal and replacement programme. This keeps costs as low as possible for consumers by integrating work programmes.¹⁰

Reprioritising asset renewal and replacement expenditure means a reduced investment in resilience in DPP4 contrary to what consumers expect.

Reopener guidance

Without Input Methodologies amendments to narrow scope and discretion, clear reopener guidance is required to improve outcomes for consumers and EDBs. This is to confirm:

- the Commission's intended approach to proportionate scrutiny;
- that the long-term interests of consumers are protected by promoting investment on a least cost lifecycle basis; and
- that the Commission will:
 - rely on risk ratings associated with asset renewal and replacement that are consistent with good asset management practice;
 - seek independent verification of 'good asset management practice' no more than once in a regulatory period relating to the asset renewal and replacement prioritisation framework (to verify the prudence and efficiency of that approach, as opposed to dealing with it case-by-case in each reopener application incurring costs and resourcing demands);
 - consider the risk ratings of projects and programmes, any further assessment should only relate to the potential to defer medium or low risk work and not assess the entire asset renewal and replacement work programme each reopener application; and
 - confirm it will accept that continuing to deliver a medium or low risk programme is prudent and efficient if there are compelling procurement, contractual or resourcing reasons to do so over the lifecycle of the asset fleet.

The residual uncertainty of reopener applications

Unison is encouraged by the efficient processing of its second reopener application of DPP3 (Te Huka 3) between May and July this year (noting only a Draft Decision has been released to date). We thank the Commission for their efficiency and providing further precedent to understand the Commission's expectations for connection capex reopeners of low to medium value.

⁹ https://comcom.govt.nz/data/assets/pdf_file/0036/339777/Unison-Networks-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf, Q5, pg 13.

¹⁰ Ibid.

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Wellington Electricity's reopener applications additionally provide beneficial precedents for future applications. We remain concerned, however, that there is not adequate transparency about how proportionate scrutiny will operate in DPP4, particularly for large, higher value projects, noting the Commission's broad discretion to determine that a CPP application is more appropriate.

Unison encourages the Commission to deliver on its intention to issue reopener guidance. It contributed to the 'Big 6' commissioning balanced guidance from PwC to assist. With adequate detail and **prompt** issuance, guidance will improve regulatory certainty in DPP4.

EDBs impacted by the 125% cap must approach the 2025-2035 asset management plans with adequate regulatory certainty to make 'prudent and efficient' decisions in the context of this regulatory constraint.

Greater transparency will markedly improve EDB confidence and planning processes, including so that clear record-keeping can respond to the Commission's expectations of meeting the criteria during DPP4. This extends to complex reprioritisation decisions that will flow from foreshadowed Electricity Authority changes (such as EDB contributions to connections) and Code amendments requiring upgraded or new systems. Reopener guidance can streamline applications for the benefit of EDBs and the Commission.

C3: Use a five-year historical reference period for setting capex allowances with an additional cost escalation adjustment.

Maintain the final reference period of 2020-2024.

Given the approach to the DPP3 reset, using the 2020-2024 reference period for the final DPP4 Decision is grounded in regulatory certainty (across periods, but also from the Draft Decision to the Final). The timing of the decisions is challenging for 2025-2035 asset management planning. There is an enhanced importance of the 2025-2035 asset management plan compared to later years given it sets the DPP4 work programme and incorporates new approaches for DPP4 (which may influence reopener applications).

The impact of timing will be acute for EDBs who would experience material cuts to the funding that results from using the lower of the 2024-2034 asset management plan, or *at least* 125% of the 2020-2024 reference period. The materiality of an adverse decision based on a different approach in the final decision would impact the fairness of the DPP4 reset process for any impacted EDBs.

C4: Include an allowance for the cost of financing, scaled in proportion to the capex allowance.

Providing the cost of financing for WIP is an incentive to invest.

We are disappointed the Commission has not considered cost of financing for Work in Progress (**WIP**). Unison's submission on the DPP4 Issues Paper explained a disincentive to invest:

To be more consistent with financial capital maintenance, a wash-up accrual to adjust for WIP at the end of each regulatory period is required. Otherwise, that capex is not recovered for five more years. These amounts are becoming more material now that capex is increasing and increasing the adverse impacts on an EDB of having to fund that debt over a longer term.¹¹

¹¹ https://comcom.govt.nz/_data/assets/pdf_file/0036/339777/Unison-Networks-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf, Q4, pg 12.

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We encourage the Commission to re-consider the materiality of funding WIP for projects in DPP3 and DPP4, which have and will continue to be increasingly long and complex given their nature and scale.

Other:

There are inconsistencies between the terminology used in the Capex Projection model and the Operating lease model. The term 'operating lease' is incorrectly used in the capex projections model instead of 'right-of-use asset'.

Operating expenditure (opex)

2. 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:

O1.1: Apply a base-step-trend approach to forecasting opex

For the base-step-trend approach to promote Part 4 in this reset, we support that step changes are justified (consistent with the applied criteria).

We refer to EDBs' submissions on Phase One of the Productivity workstream and NERA's report for the Big 6. EDBs' continual exceedance of their opex allowances in DPP3 illustrates both their need to consistently spend more than funded to maintain prudence and efficiency, despite robust disincentives to invest in those 'unmeasured outputs'. Adequate funding is essential to incentivising innovation, including in energy efficiency, demand side management and reducing energy losses.

As discussed below, Unison's concern with balanced incentives is heightened by the aggregate 5% cap on step changes given the incentive to invest becomes undermined by the impact of the cap (which is substantial for Unison given its insurance forecast includes a very material step change).

O1.2: Use 2024 as the base year.

Unison supports that a base-step-trend approach retains the benefit of regulatory certainty gained by using the 2024 disclosure year. Material steps, however, and fair trends are required for DPP4 to ensure that aligns with Part 4 (ss 52A and 54Q).

3. 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:

O2.1 to 3.5 Supporting all step changes provided

We strongly support including the listed step changes and the flexible approach to the criteria focussed on achieving a balance of factors as discussed further below. The Commission engaged in an efficient process to enable EDBs to submit their forecast costs and supporting evidence.

Along with the four step changes granted by the Draft Decision, Unison has **confidentially** submitted consumer engagement data alongside this submission.

O3.1: Include a step-change to reflect increasing insurance costs.

We are encouraged to see insurance included as a step change in the Draft Decision linked to the significant increase in forecasts because of wider insurance market movements (reflecting the global increase in risks - impacts of climate change, political instability, and a pandemic). For consumer benefit, Unison has taken a long-term view of insurance and holds an efficient level.

The aggregated 5% step change cap diminishes the incentive to invest. Unison is capped substantially by almost 50% of the forecasts provided. While EDBs invest more in resilience, it is undoubtedly in consumers' long-term benefit to receive efficient levels of insurance as protection from adverse events.

Unison supports:

- insurance as a pass-through cost; **or**
- no cap on insurance as a step change to ensure the incentive remains to invest at the quantified level of the forecast step (a low-cost mechanism to confirm the efficiency of insurance levels is submitting an independent expert assessment).

Insurance as a pass-through cost better promotes Part 4

Critical benefits for consumers and EDBs of moving insurance to become a pass-through cost are:

- restoring incentives to maintain efficient levels of insurance cover in the long-term interests of consumers;
- restoring incentives to invest in the other justified step change opex categories by shifting insurance out of the 'step' to a more appropriate recovery mechanism; and
- promoting intergenerational equity for EDBs with historically efficient levels of insurance as past, present and future consumers pay to reduce their exposure to increasing risks.

We recognise the Notice of Intention to address current issues with the treatment of insurance proceeds by the Input Methodologies. This is another fundamental step to incentivising efficient levels of insurance given existing inconsistencies in the policy intent to promote Part 4, and the available regulatory treatment.

A strong incentive for efficient levels of insurance for the benefit of consumers is urgent.

Creating a pass-through mechanism for insurance mitigates risks of catastrophic events for all parties: consumers, EDBs, and (the subsequent administrative burden for) the Commission. Consumers will benefit from more efficient industry-wide insurance, which could potentially also encourage more insurance providers to compete within New Zealand – a challenge in itself).

This would achieve a considerable collective gain for all electricity consumers over the long-term in Aotearoa. The increasing frequency of severe weather events will impact the electricity distribution sector over the medium to long-term. Uplifting the resilience of an asset fleet of the age and scale of most EDBs will take considerable time.

Today's consumers deserve the highest level of risk mitigation while resilience is improved.

The perverse outcome of a weak incentive or disincentive to invest in efficient levels of insurance is consumers paying twice for: rectification of network damage; and uplifting resilience of the remaining asset fleet. That does not promote Part 4. A pass-through mechanism, however, is a strong incentive and will ensure consumers are appropriately protected.

The Commission has other tools to ensure efficient levels are maintained. Schedule 14 of the Information Disclosure Determination provides the Commission with confidential oversight annually of the quantum of insurance levies paid.

The related party transactions approach of limited and additional disclosures provides a useful precedent for different disclosure requirements and is determined by the proportion of expenditure.

Adopting that precedent, we consider the below high-level approach has merit:

- Input Methodologies change of the definition of *pass-through cost* to include insurance levies and set the policy intent that EDBs can recover the costs of efficient levels of insurance to protect consumers (and otherwise implement necessary amendments to implement that change).
- Information Disclosure requirements:
 - allow limited confidential disclosure annually of the year prior's forecast of insurance levies for comparison against the quantum already disclosed in Schedule 14);
 - require additional disclosures where a proportion of total operating expenditure is reached (for example, 5%); and
 - those additional disclosures would be satisfied by an independent conclusion that the level of insurance of that supplier is efficient from an appropriately qualified insurance expert.

Alternatively, fund insurance forecasts in full through the step change.

While a less strong incentive in the long-term, funding a step change at the full forecast amount will achieve a better outcome for consumers (funding a full forecast also fairly captures regional differences to

ensure forecasts levels respond to network circumstances but protect consumers). The approach can be default, while each forecast will differ.

Q3.7: Cap aggregate step-changes (in real terms) at 5% of trended opex excluding step-changes.

A 5% aggregate cap risks harm to consumers and EDBs in DPP4.

The ‘approved step categories’ in the Draft Decision are directly linked to services that will create efficiencies in the future or services that consumers value. Software as a Service and LV Visibility invest in sophisticated technological solutions to inform, integrate, and enable adopting other beneficial technology. Insurance protects consumers from higher prices after an adverse event, cybersecurity enables maintaining quality, meeting lifeline utility obligations, and protecting personal information. Consumer engagement enables understanding and feedback about consumers’ expectations and acceptable trade-offs.

If those categories are not adequately compensated in DPP4 the impact is either **trading off investing in:**

- **future efficiency gains** for consumers (providing lower distribution or electricity market prices in the future through reduced costs of business) particularly relevant to Software as a Service and LV Visibility;
- **mitigating the price or quality impacts of large adverse events** for consumers to their benefit (including increasingly severe weather events, natural hazards, and cybersecurity attacks) particularly relevant to maintaining efficient levels of insurance; or
- **other services consumers value**, for example, improving health and safety outcomes for the public and staff, increasing vegetation management activities (to reduce outages), and expanding data systems and processes. EDBs investments in DPP3 were despite IRIS penalties for exceeding opex allowances because those services are in the long-term interests of their consumers.

The aggregate 5% cap is therefore inconsistent with the policy intent of the Draft Decision to adopt the least regrets option by the ‘balance of factors’ listed.¹²

An opex ‘cap’ undermines the legitimacy of the step change driver being outside of EDBs’ control.

Efficiencies cannot translate overnight, or so early in DPP4 that all EDBs can adopt and reduce costs materially within the period. NERA’s findings for the Big 6 (submitted on the CEPA Productivity Study) substantiated the “unmeasured outputs” of EDBs, and likely productivity improvement during DPP3 given the requirement EDBs ‘absorb’ significant uncompensated additional services to meet consumers’ demand.¹³

It would better promote Part 4 for the final Decision to provide uncapped step changes at the total value of EDBs’ forecasts.

¹² Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision, 29 May 2024, C11, pg 175.

¹³ https://comcom.govt.nz/_data/assets/pdf_file/0026/351458/NERA-on-behalf-of-the-E28098Big-6E28099-EDBs-Submission-on-CEPA-EDB-productivity-study-24-April-2024.pdf.

4. 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

O6.1 Apply an opex partial productivity factor of 0%.

Unison supports a 0% partial productivity factor and refers to its submission on the aggregate 5% cap on step changes. If retained, the aggregate 5% cap on step changes acts either as a disincentive to invest in:

- some step change categories (trading off against others, insurance for example against LV visibility, or cybersecurity against Software as a Service); or
- prudent and efficient business as usual as captured in the base year.

The adoption of an adverse partial productivity factor would similarly disincentivise investment constraining improvements in efficiency, resilience, innovation (including energy efficiency, demand side management and reducing energy losses), and deliverability.

This is consistent with the Commission's findings in the Trends Report 2024 (2008 – 2023):¹⁴

Operational expenditure comprised a smaller proportion of revenue over the period, at around 24% of all revenue. Operational expenditure has increased consistently over the period at an annual rate of 5.1% in nominal terms, or around \$434 million in total over the 15 years since 2008. In real terms, operational expenditure has increased annually by 2.6% or \$264 million in total.

NERA's findings for the Big 6 reviewing CEPA's Productivity Study included "Put another way, the presence of uncompensated outputs in the allowance-setting process is essentially a form of productivity target."¹⁵

These unmeasured and uncompensated outputs are described in four categories in NERA's report: consent, regulation and compliance; new product/ service; digitisation & IT; and network resilience.

¹⁴ https://comcom.govt.nz/_data/assets/pdf_file/0022/356620/Trends-in-local-lines-company-performance-25-June-2024.pdf, pg 18.

¹⁵ https://comcom.govt.nz/_data/assets/pdf_file/0026/351458/NERA-on-behalf-of-the-E28098Big-6E28099-EDBs-Submission-on-CEPA-EDB-productivity-study-24-April-2024.pdf, para 89.

The report highlights the increased operational costs for EDBs over DPP3, including stringent traffic management regulations, resource management requirements, enhanced stakeholder engagement efforts, and understanding the impact of emerging technologies. This has enhanced the financial challenges EDBs face in adapting to evolving regulations, environmental standards, and technological advancements without any revenue compensation.

Innovation and section 54Q incentives

5. Innovation, energy efficiency and demand-side management

U1	Introduce an Innovation and Non-traditional Solutions Allowance (INTSA), capped at 0.6%.
U2	Incentivise energy efficiency and demand-side management incentives through the INTSA.
U3	Do not introduce a reduction of energy losses incentive.

Views/Response:

U1: Introduce an Innovation and Non-traditional Solutions Allowance (INTSA), capped at 0.6%.

Unison strongly supports an allowance and accepts the cap recognises an additional price impact to consumers. We are very supportive of the ability to apply with other EDBs for group projects and look forward to the continuing collaboration of the industry as we jointly work toward greater resilience and progress toward Aotearoa's net-zero target. Unison supports the ENA's submission on new criteria.

U2: Incentivise energy efficiency and demand-side management incentives through the INTSA

Unison remains concerned that procuring flexibility services (which may optimise demand-side management in DPP4) may be available once only per EDB under the current proposed INTSA criteria. Proving the risks and benefits on the network (and on different parts of the network) may take different types of projects and programmes of work. To promote s 54Q, we support that at the very least the INTSA criteria are flexible. The outcome should be that similar projects progressed in different circumstances can qualify for funding.

If the INTSA criteria do not change, Unison supports that a separate energy efficiency and demand-side management incentive is provided to adequately promote s 54Q in the unique context of DPP4. Flexibility services hold great potential for consumers and the incentive should correlate to that.

Removing or increasing the 5% aggregate cap in opex step changes will strengthen incentives to invest in flexibility by providing fairer recovery of opex, a necessary precursor to promoting s 54Q.

U3: Do not introduce a reduction of energy losses incentive.

Unison agrees that this is acceptable for DPP4.

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

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.

Along with other EDBs, Unison has experienced a step change in planned work and subsequently planned outages in DPP4. A seven-year reference period is a more accurate reflection of quality for consumers than the previous ten-year approach used for DPP3.

However, **a five-year historical reference period for planned outages, better promotes the policy intent of the quality incentive scheme (QIS)** as described in the DPP3 Reasons Paper. It would provide a meaningful measure aligned to the historical reference period for capex and consumers' experience of quality in DPP3. That is consistent with "no material deterioration of quality".

Many EDBs have responded well to the DPP3 incentive in network investment and maintenance and as a result (and as intended by the DPP3 reset) consumers have experienced an uptick in planned outage work in DPP3. The Commission said in 2019: *"However, we note that the 'status quo' reliability experienced by consumers does change over time"*.¹⁶

There is a misalignment between an 100% buffer into DPP4 and inter period -/+10 cap against the forecast increase in capex across the industry. Using a five-year historical reference period (2020 – 2024¹⁷) also

¹⁶ https://comcom.govt.nz/_data/assets/pdf_file/0020/191810/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2020-Final-decision-Reasons-paper-27-November-2019.PDF, [J28].

¹⁷ Aligned to the capex historical reference period to be used in the final decision.

separates DPP3 from the previous “substantial volatility” in planned interruptions over time (as described in the DPP3 Reasons Paper).¹⁸

10% inter-period movement limit on planned outages

The QIS implemented in DPP3 has worked as intended with many EDBs responding to the 200% buffer on historic data. In the first three years of DPP3 many large EDBs more than doubled their historic planned work (when assessing the 10-year period of 2014-2023, the last 3 years saw a three-fold increase to the first three years for Wellington Electricity, Vector, Unison, and Horizon).

The context for encouraging planned work has only strengthened at this DPP4 reset with a unique level of Commission scrutiny applied to EDBs’ growth and resilience plans. The 10% inter-period movement limit is incongruous with incentives to invest in more planned work and the QIS effectively being rolled over from DPP3. A 20% or higher movement limit is appropriate.

The quality incentive scheme must also reflect the policy intent that reopeners will fund more planned work (and subsequent outages) than previous price-paths and therefore there must be some room within the incentive scheme to absorb that planned work. The reliance on reopeners to deliver a fair price-path to EDBs is new to DPP4 and relevant to a fit-for-purpose QIS.

The DPP3 Reasons paper also addressed the link between planned outages and “*the long-term benefits to consumers of the network investment and maintenance that is associated with planned interruptions*”.¹⁹

A five-year historical reference period for planned outages provides a balanced:

- **incentive to invest** in network investment in growth and resilience by delivering planned work at an increasing scale to meet the 2024-34 asset management plan forecasts (consistent with the capex historical reference period which also reflects planned work completed under the incentives over that period); **and**
- **reflection of consumers’ experience** of quality which has changed from DPP2 (and removing the previous ‘substantial volatility’ over a ten-year period which was the ‘status quo’ then and is now consistently trending at a higher level).

For Unison to access the QIS as outlined in the Draft Decision and complete its planned work programme in DPP4, it may need to materially scale up its use of generation to avoid outages. Putting concerns such as the carbon emissions involved in the lowest cost diesel generation option aside, increased generation comes at a higher cost to complete planned work programmes. This is at a time consumers value network growth, improving resilience, and cost-efficiency. We are not confident this is a trade-off consumers would consider in their long-term interests. A five-year reference period adequately mitigates that potential harm.

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.

¹⁸ https://comcom.govt.nz/_data/assets/pdf_file/0020/191810/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2020-Final-decision-Reasons-paper-27-November-2019.PDF, [J79].

¹⁹ Ibid, [L56].

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:

We support ENA's 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:

N5: Retain additional reporting by EDBs for each unplanned major event in its compliance statement consistent with DPP3.

Unison adopts Fire Emergency New Zealand's (**FENZ**) procedure to shut off auto-reclose during-risk fire periods. We are prepared for more drought conditions caused by climate change. However, safety first is not the outcome currently incentivised by the DPP. The risk increases as adverse weather conditions worsen that are out of EDBs' control.

The existing regulation risks creating an unnecessary risk of harm (for example, incentivising EDBs not to turn off auto-reclose in high fire risk conditions which includes high wind). Unison had modelled the impact of shutting off auto-reclose on its SAIDI and SAIFI and it is significant.

The existing disincentive affects groups of networks differently as it is highly dependent on vulnerability to vegetation risks. There are a large group of non-exempt EDBs who are vulnerable to vegetation risks, and particularly fall distance zone risks based on topology of their regions and network type (overhead or underground). The Information Disclosure confirms the substantial portion of outages caused by vegetation across exempt and non-exempt EDBs.

Statutory obligations require EDBs to manage vegetation consistent with the Electricity (Hazards from Trees) Regulations. EDBs ability to manage vegetation risk in the Tree Regulations is limited to the growth limit zone and does not extend to the fall distance zone.

It is inequitable to penalise EDBs through economic regulation for a risk they mostly cannot legally or cost efficiently minimise

Unison's vegetation outage data validates that fall distance zone trees cause most vegetation related outages. This directly correlates to the impact of shutting of auto-reclose. Auto-reclose systems automatically restore power after a transient fault, such as those caused by fallen branches, animals or lightning strikes (it turns the power on and off in short bursts to test whether the object or fault remains). The SAIDI and SAIFI impact of shutting off auto-reclose is highly dependent on the surrounding vegetation conditions.

Provide an incentive of SAFETY FIRST given the specific risks relating to electricity and fire.

This can be implemented by:

- excluding interruptions in the Compliance Statement where there is an evidenced link to FENZ's high fire-risk rating during the time of the outage, procedures or an instruction²⁰ – as we understand is consistent with what is proposed for INTSA projects; and / or
- providing a distinct class of outage to attribute to FENZ procedures or instructions and excluding that class from calculations for breach.

Consumer interests are not supported by EDBs trading-off an imprudent fire risk against maintaining quality.

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, $\pm 5\%$ 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.

²⁰ See FENZ guidance: [Hawkes-Bay-Fire-Plan-2024-2027-draft.pdf](https://www.fireandemergency.govt.nz/assets/Uploads/Hawkes-Bay-Fire-Plan-2024-2027-draft.pdf) ([fireandemergency.nz](https://www.fireandemergency.govt.nz)).

Views/ Response:

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.

The purpose of INTSA is to promote investment in innovation and efficiency, including energy efficiency and demand side management (under s 54Q). A 0.5% exclusion on SAIDI and SAIFI is insufficient and will create a disincentive to invest in technology that comes with risk (which contradicts the criteria in the Draft Decision which is to promote projects with risk).

We cannot see value in a quality cap when the intention of the allowance is to incentivise funding for a successful project. The Commission has oversight of each project and its business case. A minimal 0.5% cap could lead to approved funding but a very likely adverse quality impact (potentially breach) which may undermine the incentive to invest.

To remove or reduce that disincentive, we consider that the DPP3 reset approach to planned quality work has merit. The buffer was increased to 200% to encourage planned work. Removing the cap for excluding INTSA related SAIDI and SAIFI represents a similarly strong incentive. Transparency can be achieved through reporting of SAIDI INTSA and SAIFI INTSA to measure impacts for future quality standards.

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:Price path

The assessment of consumer price impacts balanced against EDBs financeability (as analysed by the Draft Decision and models) provides a persuasive basis to form judgements for the DPP4 reset. The P0 increase is meaningful to consumers, as will be the price increases during the period. However, prolonging the recovery of delayed cashflows risks greater harm to consumers and EDBs.

We acknowledge the difficulty to quantify likely real price impacts. The high-level analysis is pragmatic. We look forward to reviewing other stakeholders' opinions and considering improvements.

The financeability 'sense check' confirms the importance of restoring EDBs' cashflows in DPP4, particularly in the first few years. This is required to: improve the financeability of EDBs; incentivise prudent and efficient investment in the long-term with restored cashflows (as intended by the regulatory regime); and to enable investment in innovation and non-traditional solutions which will require cash upfront to progress. The investments required into DPP4 and DPP5 are large and well justified, this is on the back of delayed

recovery of the efficient costs of business, including investment in connection capex and innovation and high borrowing costs and industry wide IRIS penalties.

Unison supports the notional financeability metrics applied and the Commission's transparency publishing the associated models. For the reasons above, we strongly support maintaining the recovering of cash-flows early in the period consistent with the metrics applied. Adjusting the alternate rate of change to fairly restore cashflows to EDBs is consistent with the methodology applied to assess price shocks to consumers against financeability concerns for EDBs (on an individual basis).

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:

I1: IRIS retention rate for capex is equivalent to the opex rate.

Remove connection capex from IRIS.

We do not support a 33% IRIS retention rate on connection capex. **The national benefits of customer driven decarbonisation and resilience projects rely on EDBs delivering connection capex efficiently.** For example, commercial EV charging, process heat conversions, and large energy efficiency projects (that may include large solar projects and micro grids). As IRIS applies to all capex, it does not incentivise or penalise one category of expenditure over another.

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. It may also provide a necessary boost to deliverability creating less overflow to DPP5 (which as discussed above) will heighten deliverability concerns in DPP5. EDBs will remain incentivised by IRIS to spend less on the other categories of capex – particularly through the increased retention rate (and not to overspend).

The regime otherwise disincentivises imprudent and inefficient trade-offs (for example, through the QIS and the reopener criteria). Increasing the capex cap to 130% would also improve outcomes for connection capex.

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.]
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Views/ Response:

R1.1 – R 3.4 Revenue Path

We appreciate the transparency of sharing models with the assessment of consumer price impacts balanced against EDBs' financeability (as analysed by the Draft Decision and models), and the alternate rate of change.

It is difficult to aggregate consumer groups to determine likely real price impacts, each EDBs' pricing methodologies and circumstances will impact real price impacts into the period.

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:

X1 Retain the current five-year regulatory period length.

Unison strongly supports the five-year regulatory period for the reasons of regulatory certainty and efficiency. We consider that, with adequate funding, this also promotes deliverability by providing greater confidence in the funded projects for the five-year period enabling commitment to a longer-term work profile. Regulatory certainty would, however, be markedly improved by increasing the capex cap and providing reopener guidance.

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:

M1 Weighted average cost of capital (WACC) of 7.37%.

Revenue recovery remains critical to preserve incentives to invest for EDBs. EDBs should remain entitled to the starting prices proposed by the Draft Decision if WACC drops before the Final Decision.

M3: Forecast depreciation on existing assets based on information provided by each EDB.

The Commission has decided to move away from its traditional approach to depreciation for existing assets in favour of a more accurate and supported method. However, it has proposed to continue using a standard 44-year asset life for all assets commissioned during the regulatory period.

As the differences in useful life affect the calculation of BBAR, Unison recommends that the Commission adopt average useful life of assets commissioned during DPP3 for each EDB as the standard life for assets commissioned in DPP4. This will better reflect the evolving composition of commissioned assets, including the increased adoption of non-network solutions that typically have a shorter useful life.

We consider this would improve incentives to invest in non-network innovation and non-traditional solutions as the revenue (BBAR) recovery more accurately reflect the useful life of those assets.