

# ENA submission on default price-quality paths for electricity distribution businesses – draft decision

**Submission to Commerce Commission**

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NAME OF SUBMITTER

**Electricity Networks Aotearoa**

INDUSTRY/AREA OF INTEREST

**Utilities/infrastructure**

CONTACT

**Keith Hutchinson, Regulatory Manager**

ADDRESS

**Level 5, Legal House  
101 Lambton Quay  
Wellington 6011**

TELEPHONE

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EMAIL

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# 1 Introduction

Electricity Networks Aotearoa (ENA) appreciates the opportunity to submit on the draft decisions on the default price-quality paths (DPP) for electricity distribution businesses.

ENA represents the 27 electricity distribution businesses (EDBs) in New Zealand (see Appendix A) which provide local and regional electricity networks. EDBs employ 10,000 people and deliver energy to more than two million homes.

New Zealand homes, businesses, and communities have a critical reliance on a safe, secure, resilient, and affordable supply of electricity for their health and well-being. In addition to directly powering communities, electricity is critical to the operation of many other essential services, such as telecommunications and water reticulation.

## 2 Executive summary

ENA believes that the Commerce Commission's (Commission) draft decision has attempted to balance its impact on consumers and the need for EDBs to invest to ensure that they can continue to deliver their services in a safe, reliable and cost-effective manner, and ensure New Zealanders an electrified and affordable quality of life.

Managing consumer price shocks will be the most pivotal component of the Commission's default price-quality path (DPP) determination. The Commission's approach to revenue smoothing both at the commencement of and across the regulatory period is appropriate and should be maintained in the final decision.

ENA believes that the precedent set by the Commission's decision to smooth revenue movements should be symmetrically applied in future resets where revenues are expected to drop because of a fall in the cost of capital. The Commission's desire to avoid price shocks must also be reflected in future input methodologies (IM) decisions including on the cost of capital. ENA notes that it is the Commission's explicit decision to retain the on-the-day approach to the risk-free rate that has resulted in 40% of the revenue uplift for DPP4.

The vast majority (66%) of DPP4 revenue increases are driven by exogenous components of the regulatory regime (risk-free rate and inflation). Cuts to opex and capex will not significantly alter the price trajectory for DPP4 (capex movements accounting for only 13% of the total revenue increase).

EDBs are building capacity through initiatives including ENA's active participation in the *Champion of Change – influencing the outside* work programme. This group has recently completed the gender pay gap analysis for the electricity sector, it is currently in the market with a request for a proposal to deliver a national recruitment campaign for the sector, and in addition, a STEM programme and leadership programme to sponsor more diversity into the industry are being developed. In addition, ENA is part of the Waihanga Ara Rau Electricity Supply Industry Strategic Reference Group which is implementing the *Re-energise* report.<sup>1</sup> With this range of initiatives, and others, EDBs are confident they will deliver the capex and opex programmes set out in their asset management plans (AMPs). The IRIS ensures that EDBs are incentivised to deliver their capex and opex programmes and ensures that consumers benefit from efficiency gains and lower-than-forecast spending.

EDBs welcome the Commission's recognition that they face step changes in opex costs that are quantifiable, evidenced, and meet the Commission's step change criteria. The Commission's aggregate 5% cap on step

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<sup>1</sup> [https://www.waihangaararau.nz/wp-content/uploads/2023/11/Re-energise-ESI-Workforce-Development-Strategy-Report\\_FEB2022.pdf](https://www.waihangaararau.nz/wp-content/uploads/2023/11/Re-energise-ESI-Workforce-Development-Strategy-Report_FEB2022.pdf)

opex change, inappropriately excludes prudent expenditure. ENA's view is that any cap on step changes should be applied to individual step changes, not at an aggregate level.

An opex step change has been included for increased insurance costs. ENA welcomes the recognition of the increased insurance costs faced by EDBs. However, ENA's view is that given that insurance costs are expected to continue to increase at a rate well above the opex escalator, they should either have a specific insurance escalator applied or be treated as a pass-through cost.

ENA strongly supports the retention of the 0% opex partial productivity factor. The CEPA report and submissions on that report by ENA and others demonstrate that there is no evidence to support the application of a partial productivity factor.

ENA supports the retention of the existing quality measures. ENA members have identified some issues with the Commission's implementation of this decision. Foremost amongst these is the reduction of the planned interruptions buffer which conflicts with the expectation that EDBs will increase the resilience of their networks through more planned works.

The innovation and non-traditional solution allowance (INTSA) represents a vast improvement over the existing innovation allowance. Equally important as the INTSA's increased funding threshold, is the move to ex-ante approval and provisions for joint applications and projects. The result of these changes is likely to be a significantly greater utilisation of the INTSA.

The Commission expects that EDBs will use CPPs and DPP reopeners as the primary tool to provide them the tailored allowances and price paths not facilitated by a DPP. This approach can only be viable when EDBs have clear insight into the Commission's approach to the application processes and assessment criteria of CPP and reopeners. The Commission must, without delay, publish formal and specific guidance on their CPP and reopener application processes, evidence requirements and assessment criteria.

The Commission has moved to use more accurate asset lives for existing assets in setting depreciation allowances. However, the asset life for new assets adopted by the Commission is an arbitrary 44 years. ENA believes that the use of an arbitrarily set single life for new assets is inconsistent with the Commission's drive for greater accuracy and is not consistent with the actual lives of emerging assets which are often much shorter.

ENA has identified an inconsistency between the DPP determination and the IM drafting. The results of this are that wash-up balances are unable to be drawn down as expected. ENA recommends the Commission amend the IMs to enable the implementation of a wash-up mechanism set out in the DPP4 draft determination. ENA's proposed amendments are set out in Appendix B

Appendix C of this submission summarises ENA's views on each of the Commission's draft decisions in the requested format.

## 3 Bill impact, supplier hardship and the price path

### 3.1 Appropriate to use revenue smoothing to mitigate price shocks

Increases in the exogenous WACC and inflation variables have resulted in a direct and material uplift in EDB revenue allowances in DPP4. The Commission's explicit decision to retain the on-the-day approach to the risk-free rate, which EDBs have long argued creates unnecessary revenue volatility, has resulted in 40% of the DPP4 revenue uplift.

The impact on revenues of the uplift in capital expenditure (capex) needed to maintain networks, facilitate decarbonisation and build resilience will be subdued in DPP4, accounting for less than 15% of the total revenue uplift.

ENA believes that a 6% consumer bill impact on 1 April 2025, and a 3% per annum impact thereafter strikes an appropriate balance between the need for EDBs to invest and price shocks to consumers, given the Commission IM decisions which have locked in material revenue volatility between periods.

The Commission has historically not smoothed DPP revenue paths over the regulatory period and has imposed the unmitigated revenue impact of DPP decisions on EDBs on the first day of each regulatory period. ENA's firm view is that the Commission's draft decision to mitigate P0 changes for DPP4 sets a precedent that should be applied symmetrically to future determinations regardless of whether they result in revenue increases or decreases.

### 3.2 Allowing full BBAR recovery in DPP4 ensures FCM

The Commission, in its decision on the IM framework, identified ex-ante real financial capital maintenance (FCM) as a fundamental economic principle for the Part 4 regime. ENA supports the Commission's decision to allow the full recovery of forecast allowable revenues within DPP4 (no planned deferral of revenues between DPP4 and DPP5) as it ensures FCM.

### 3.3 IM amendments required to implement DPP4 wash-up account drawdown

The draft decision confirms the Commission's intent to bring forward the residual wash-up balances from DPP3 into DPP4 and allow them to be recognised in the revenue cap through the wash-up drawdown mechanism.

This approach intends to preserve the two-year lagged recovery timing, adopted for DPP3, such that a wash-up that accrues in an assessment period, is available for drawdown two years later. Thus, it is the closing wash-up balances from the fourth and fifth assessment periods of DPP3 (reporting year (RY) 24 and RY25) which transition into DPP4.

As currently drafted, there is an error in the IMs which prevents the RY24 washup account balance from being drawdown in the first year of the DPP4<sup>2</sup>. The consequence of this is that the wash-up amount accrues for three years, rather than two, and is available for drawdown in RY27, with the RY25 balance.

Not only does this create pricing volatility, but it is also inconsistent with the Draft Decision X factors and starting prices for each non-exempt EDB. It is also inconsistent with the Draft Decision's financeability tests<sup>3</sup>, and the consumer impact modelling<sup>4</sup>.

The issue arises because some of the IM terms to be used in DPP4 were not used in DPP3, specifically in this instance the wash-up account balance. The IMs recognise this issue for RY25 and address it in clause 3.1.4(2), but this clause does not address the issue for RY24.

Further, the wash-up drawdown amount for DPP4 is incorrectly specified, allowing the wash-up account balance to become negative when there is a positive accrual because the prior year's drawdown amount is not accounted for.

ENA with assistance from PwC has prepared a set of IM amendments set out in Appendix B. These changes will:

- avoid unnecessary volatility in transitioning into DPP4, which arises under the current IM provisions for wash-up drawdowns; and
- avoids negative wash-up account balances in DPP4.

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<sup>2</sup> For example, Table F3 and paragraph F34 in the Draft Decision

<sup>3</sup> The *Financeability model* inputs 'Wash-up amount' for RY26 and RY27 are derived from the 'Opening wash-up account balance' in the *Wash-up Indicative Amounts model*. In this model, the RY26 'Opening wash-up account balance' is derived from the RY24 'wash-up amount', and the RY27 'Opening wash-up account balance' is derived from the RY25 'wash-up amount'

### **3.4 The change to a real 10% cap on annual increases is reasonable**

The inclusion of a 10% revenue smoothing limit for recoverable costs (i.e. IRIS balances) is achievable given the IM decision to include transmission prices as a pass-through rather than recoverable cost. As detailed below, ENA's preference is for insurance costs to be treated similarly with an amendment made to the IMs to specify insurance as a pass-through cost and exclude it from the revenue smoothing limit.

#### **3.4.1 Revenue smoothing limit should incorporate both ICP and MWh changes**

The Commission has proposed to assess consumer price shocks on a real revenue per ICP basis including both wash-ups and the IRIS.

The electrification of transport and heating in New Zealand is expected to result in a significant uplift in electricity consumption. As almost every home and business in New Zealand is already connected to an EDB's network, the increased use and reliance on electricity by New Zealand households and businesses is not likely to be reflected in the growth in ICPs but will be captured in energy volumes per ICP.

While ENA supports the Commission's price shock assessment being based on real revenues, ENA believes the impact assessment should incorporate both ICP growth and energy volume growth (measured in MWh). This would better reflect New Zealand's energy transition which is expected to gather momentum over DPP4.

### **3.5 Voluntary undercharging limit should be expanded to 20%**

Voluntary undercharging allows EDBs to manage price volatility within and between regulatory periods. The Commission, via its DPP decision, will determine an appropriate level of revenue for each non-exempt EDB for DPP4. There is no economic reason for the carrying forward of this appropriate revenue, via voluntary under-recovery, to be capped. The expansion or removal of the cap would better enable EDBs to smooth the transition into DPP5 (when WACC is expected to fall materially) and manage the impacts of lumpy capex.

ENA notes that the price impact of the future recovery of any carried forward voluntary under-recovery is capped at 10% per annum by the proposed revenue smoothing limit. Further, the Commission has, in its draft decision, considered that a real 20% movement in prices is acceptable. If the Commission is determined to set a voluntary undercharging limit, then ENA recommends that it be set at 20% to reflect the Commission's view that 20% price movement is appropriate.

### **3.6 The financeability sense check is practical and transparent**

Throughout the IM and DPP process to date, ENA and its members have called for financeability to be given proper consideration in the Commission's revenue-setting process.

ENA is encouraged to see that the Commission has listened and has proposed to implement a financeability sense check that is practical, transparent and uses credit metrics that rating agencies apply across the globe.

The use of outputs from the DPP4 financial model and the BBB+ credit rating for the sense check is supported by ENA.

## **4 Building capacity to deliver infrastructure**

Throughout the DPP issues paper, and the draft DPP decision, the Commission raised concerns that the sector may face deliverability challenges.

ENA and EDBs are working to ensure the sector can build and maintain the infrastructure needed to deliver distribution services in a safe, reliable and cost-effective manner.

As a sector, we know that we need at least 100 new workers a year (mainly engineers, technicians and tradespeople) to both grow the sector, and to replace workers who leave.

Like many other industries currently, we face challenges in both attracting and retaining talent. As a collective electricity supply sector we have come together to participate in the *Champion of Change – influencing the outside* work programme which has recently completed the gender pay gap analysis for the electricity sector. In addition, the ENA is currently in the market with a request for proposal to deliver a national recruitment campaign for the sector, and work is underway to develop a STEM programme and leadership programme to sponsor more diversity into the industry. ENA is also part of the Waihanga Ara Rau Electricity Supply Industry Strategic Reference group which is implementing the Re-energise report<sup>4</sup>.

Once the Energy Sector and Government Decarbonisation Framework has been established, we hope to see workforce as a programme of work under this Framework.

With this range of initiatives, and others, EDBs are confident they will deliver the capex and opex programmes set out in their asset management plans (AMPs).

## 5 Capital expenditure

### 5.1 Limited short-term price impacts of capex

The nature of the building blocks approach to setting revenue allowances and the principle of FCM means that the price impact of capex in any one year is a fraction of that year's spend. This is important for the Commission to bear in mind when considering forward-looking capex allowances.

The risks and consequences of under-investment by EDBs manifesting in slower decarbonisation and less resilience in distribution networks in the face of extreme weather events are far higher than the risk and consequence of small price increases spread over the life of the infrastructure funded by EDBs to meet these needs. For example, ENA estimates that raising the capex cap from 125% to 150% of historical capex would only give rise to an increase in the total allowable revenue across all non-exempt EDBs of less than 1%.

### 5.2 Capex cap will force EDBs onto CPPs that aren't to the long-term benefit of consumers

The move to a real 25% capex cap based on gross capex for DPP4 is an improvement over the Commission's historical approach. EDB's AMP forecasts of expenditure are based on the needs of their communities. The arbitrary 125% capex cap will force EDBs that need a step change in expenditure to meet the needs of their consumers to subject themselves to the costly and timely CPP process. Consumers ultimately bear the cost of the processes. To limit these inefficient costs, ENA recommends that the cap be raised to at least 130%.

This impact will be felt especially hard by small EDBs driven to apply for a CPP. For these EDBs, the cost and resources consumed by CPP applications may ultimately not be in the long-term interest of consumers. As a consequence, EDBs will be forced to scale back their facilitation of decarbonisation and this may lead to consumers' needs and expectations not being met.

### 5.3 Formal guidance on CPP and reopener application and assessment are needed

Throughout the draft decision, the Commission has repeatedly stated that the DPP process is intended to be a low-cost approach that is not tailored to the individual circumstances of each EDB. The Commission's view

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<sup>4</sup> [https://www.waihangaararau.nz/wp-content/uploads/2023/11/Re-energise-ESI-Workforce-Development-Strategy-Report\\_FEB2022.pdf](https://www.waihangaararau.nz/wp-content/uploads/2023/11/Re-energise-ESI-Workforce-Development-Strategy-Report_FEB2022.pdf)

is that where an EDB's circumstances are outside the one-size-fits-all DPP, they should look to a CPP or reopeners to obtain a price-quality path that better suits their circumstances.

EDBs recognise that this is a broadly suitable approach. However, there is extremely little information, documentation, or formal guidance available about the processes, evidence, timeframes and assessment criteria adopted by the Commission in their consideration of CPP or DPP reopener applications.

To avoid EDBs finding themselves in the untenable position of having to invest scarce resources in a CPP or reopener application, the Commission must provide this formal documentation and guidance without delay.

For more than a decade, the Commission has failed to deliver its promised quality compliance guidelines. This information vacuum cannot be repeated if the Commission is to rely on CPP and reopeners to deliver a regulatory framework that meets the needs of EDBs and the consumers that rely upon them.

## 5.4 Prioritisation of projects

The Commission notes in paragraph B253 that it has set capex allowances on a total capex basis rather than based on individual projects or programmes. It advises EDBs to prepare a prioritised list of projects and programmes which would outline how they intend to spend their capex allowances during the period.

ENA notes that the requirement to prepare a prioritised list is not a requirement of the IMs or the DPP determination. Rather, it is simply a suggestion by the Commission to assist EDBs in demonstrating whether a particular project is in the allowance or not.

Further, the Commission has not proposed any scrutiny of the list at this time. ENA requests the Commission provide clarity on whether it expects to evaluate the ranking of the projects on the list in the context of reopeners.

## 5.5 Capital goods price index (CGPI) uplift is welcomed

EDBs have experienced a material increase in the cost of infrastructure delivery, largely because of a sharp jump in input costs. ENA welcomes the Commission's consideration of the evidence provided by its members and its decision to include an annual adjustment of 0.8% to the All-Groups CGPI.

# 6 Depreciation and asset lives

## 6.1 Depreciation and asset lives

A change in the IMs has resulted in the Commission calculating each EDB's DPP4 depreciation allowance for existing assets based on each EDB's forecast of depreciation. ENA acknowledges that this change will result in regulatory depreciation allowances that more closely reflect the useful asset lives and depreciation expenses contained in EDB's regulatory accounts and fixed asset registers. However, ENA is concerned that the new approach will not be able to be accurately and effectively implemented in time for the DPP4 final decision. ENA documented these concerns in its letter to the Commission dated 23 May 2024.

The impact of this change on EDBs' depreciation allowances is material. The Commission's proposed depreciation allowances for 10 EDBs are forecast to be more than 15% lower by the end of DPP4 than if the DPP3 approach was retained. This is partially offset by higher RABs throughout DPP4 and into DPP5.

While the draft DPP4 decision largely ameliorates EDB concerns over the changes' impact on cashflows and financeability, concerns remain about the Commission's lack of transparency on the potential impact of the change during the IM decision-making process.

As discussed above, the Commission has decided to abandon its historical approach to depreciation for existing assets in favour of a more accurate approach. However, it has proposed to retain the use of an arbitrary 44-year asset life for all assets commissioned during the regulatory period.



To better reflect the changing makeup of commissioned assets (including the greater uptake of non-network solutions, which typically have a shorter useful life), ENA recommends the Commission adopt each EDB's average useful life of assets commissioned during DPP3 as their standard life for assets commissioned in DPP4.

## 7 Reopeners

### 7.1 Uncertainty on the decarbonisation pathway requires flexibility in capex allowances

The uncertainty over the timing and scale of expenditure needed to facilitate decarbonisation will demand that EDB capex programmes be nimbler and more responsive. This, in turn, will require that DPP uncertainty mechanisms be faster and more efficient than in the past, where reopener applications have taken close to a year.

### 7.2 Forced contributions policy changes risk shifting the burden onto existing customers

EDB's forecasts of system growth and customer connection capex are directly and inextricably tied to EDB's capital contributions policies. Capex only enters an EDB's RAB if it is funded by the EDB with any amount funded by the customer excluded from their capex allowance and therefore their RAB.

The Electricity Authority (Authority) has committed to directly regulating capital contributions and connection pricing via amendments to the Electricity Industry Participation Code in 2025<sup>5</sup>. One of the options being considered is capping upfront contributions. Any cap would shift the cost from the beneficiary and causer of this expenditure onto existing customers who do not benefit from it. This would add to future price increases for existing consumers including those experiencing energy hardship.

Any intervention by the Authority to regulate capital contributions/connection charges should trigger a reopening of the DPP decision in accordance with section 54V of the Commerce Act. The Commission should engage with the Authority to ensure that it is aware of its responsibilities under section 54V.

The Authority's decision to regulate connection pricing and contributions may have perverse consequences for EDB's incentives to support electrification. To ensure that incentives to invest are not undermined by the Authority intervention, ENA recommends that, at a minimum, customer-driven capital connection capex be excluded from the IRIS.

### 7.3 Uncertainty over CPPs and reopeners creates planning and deliverability challenges

EDBs take a forward-looking approach to planning and delivering capital projects. This includes working with their internal and external delivery partners to plan the work programme, train staff where necessary, and procure assets with long lead times well ahead of need.

Because CPPs and reopeners are not set in advance of need, EDBs cannot plan and ensure resources are available until the CPP or DPP decision is made. As a result, the CPPs and DPPs can hamper an EDB's ability to appropriately plan and deliver infrastructure in a timely manner.

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<sup>5</sup> Electricity Authority, 2024, Distribution Pricing Reform Next Steps, p2

## 8 Operational expenditure

### 8.1 Base-step-trend

ENA understands the Commission's preference for the retention of the base-step-trend approach. If due and proper consideration is given to step changes and the drivers of growth in opex, it can be an acceptable alternative to the use of EDB AMP opex forecasts.

ENA's members (excluding Top Energy) view is that the Commission has provided this due consideration in the draft decision, and therefore ENA supports the continued use of the base-step trend approach for DPP4.

### 8.2 Base

The proposed use of actual 2024 disclosure year data for base operating expenditure is appropriate.

### 8.3 Industry-wide step changes

ENA welcomes the inclusion of the six identified step changes. However, the Commission's choice to cap the aggregate value of the step changes at 5% of opex is not supported. As the steps have been individually assessed as meeting the Commission's assessment criteria, it is inappropriate that any cap be applied in aggregate. Therefore, ENA recommends that an individual cap of 5% of total opex per step change be applied.

#### **Insurance is better suited to passthrough or ongoing individual escalator**

Since 2017, EDBs' insurance costs have risen at rates well above the Commission's chosen opex cost escalators (LPI and PPI). In the draft decision, the Commission has recognised this increase and allowed a step change for insurance costs. While the step change deals with the historical increases in insurance costs, it does not deal with the continuation of the rapid growth of insurance premiums that is expected to continue throughout DPP4.

ENA's view is to ensure that EDBs are not forced to reduce their insurance coverage at a time when the impacts of climate change (including more frequent and severe weather events) are increasing. The Commission must act to ensure that EDBs are funded to maintain an efficient level of insurance. There are two options for the Commission to deliver this:

1. Include insurance costs as a pass-through in the IMs. ENA believes that insurance costs meet the pass-through cost criteria most recently articulated by the Commission whilst setting the IMs for Fibre<sup>6</sup>, specifically:

- it must be appropriate that end-users bear the cost:

*If EDBs are underinsured, it is consumers that bear the disproportionate cost of the post-event rebuild required to restore services (i.e. enable EDBs to deliver on the no material deterioration principle). Therefore, it is appropriate and efficient that customers bear the full cost of the insurance which ensures that they are not inefficiently exposed to large and uncontrollable response and recovery costs.*

- the regulated provider must have almost no control over the cost (whether to incur it and the amount incurred):

*Insurance premiums for the type of infrastructure owned by EDBs are set in the international market. Brokers offering these offshore-sourced insurances are unwilling or unable to offer prices for more than one year at a time. EDBs have no choice but to either accept the one-year prices offered or go without insurance.*

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<sup>6</sup> Commerce Commission, 2020, Fibre Input Methodologies – Main final decisions reasons paper

- the driver of the cost must be foreseeable when the IMs are determined:

*The need for EDBs to procure efficient levels of insurance was fully known and communicated to the Commission when the IMs were set in November 2023.*

ENA notes that the Commission has issued a notice of intent to amend the IMs to alter the treatment of insurance proceeds. This provides a prime opportunity for the Commission to amend the IMs to categorise insurance costs as a pass-through.

2. Adopt an individual, specialised cost escalator for insurance costs. This escalator could be based on either the insurance components of Stats NZ price indexes (CPI, PPI) or an expert report like the Principal Economics forecasts procured for the draft DPP decision.

## 8.4 Trend

### 8.4.1 LCI/PPI ratio and uplift factor appropriate

The Commission's use of a 60/40 mix of changes in the Labour Cost Index (LCI) all-industries and Producers Price Index (PPI) input indices may not accurately reflect the movement in EDBs' opex costs.

However, ENA's view remains that there is no alternative approach that would deliver greater accuracy without introducing more complexity into an already complex opex trending process. Therefore, ENA's view is that the current approach is appropriate.

The proposed inclusion of a 0.3% uplift reflects the significant increase in opex input costs experienced by EDBs (and is likely to continue). This is an important recognition that these cost increases are occurring across all infrastructure and engineering sectors and are not within the control of EDBs. Therefore ENA heartily supports it.

### 8.4.2 Scaling factors and the reference period

The use of econometric models to forecast the impact of network growth on opex is an appropriate, if highly technical, approach.

#### **The 2018-2023 reference period is appropriate, but outliers should be addressed**

In its draft decision, the Commission has changed the reference sample used for its econometric modelling to adopt a 2018-2023 reference period, ENA views this as a reasonable approach.

ENA encourages the Commission to resolve any issues with the historical information disclosure (ID) data sets by:

- engaging with EDBs to correct any incorrect data points; or
- replacing the outliers with interpolated estimates using the abutting data points.

### 8.4.3 A zero per cent partial opex productivity factor is appropriate

#### **CEPA's findings support the Commission's decision to retain a 0% partial productivity factor in the DPP**

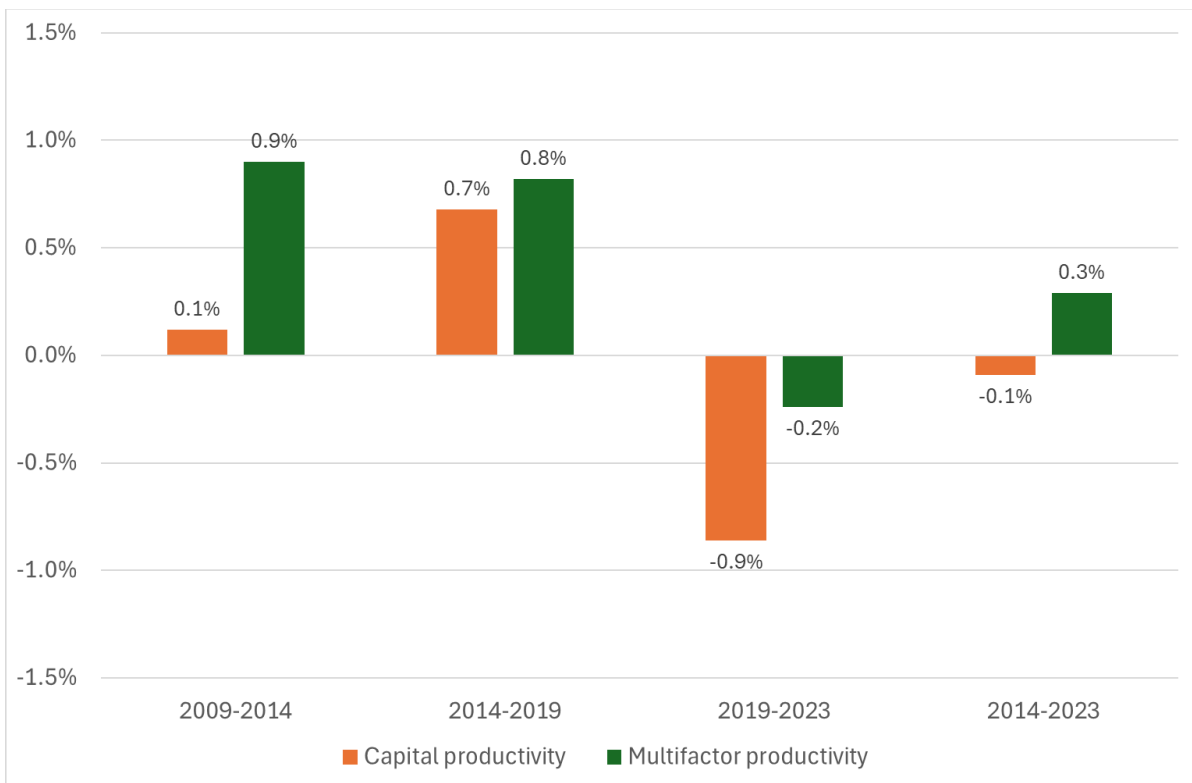
ENA agrees with CEPA that its findings do not provide conclusive evidence that productivity has declined. The CEPA report, with all its included caveats, found that EDB productivity over the past decade has not materially declined. There is no evidence in the report that supports a change to the 0% opex partial productivity factor.

As recognised by the Commission in the draft decision, EDBs will “need to adapt to meet the needs of the energy transition, manage uncertainty and provide benefit for consumers.”<sup>7</sup> Any productivity outcomes from EDBs’ investment in the energy transition will not manifest until the investment and transition phase is complete. During periods of transition, uncertainty, and growth, it is unreasonable to expect productivity growth. This shows further evidence that the 0% opex partial productivity factor is appropriate for DPP4.

### Economy-wide productivity has declined

Data from Stats NZ shown in the chart below, illustrates that economy-wide multifactor productivity has been negative since 2019 and flat for the past decade. This illustrates that the stability of EDB productivity over the last decade (highlighted in the CEPA report) reflects economy-wide factors that cannot be controlled by EDBs. Therefore, there is no justification for the imposition of a partial opex productivity factor on EDBs.

**Chart 1: Average Annual New Zealand economy-wide productivity growth**



Source: Stats NZ, ENA

Given the economy-wide deterioration in productivity and that the dividends from EDBs support for the energy transitions will not be reaped until future periods, ENA strongly supports the Commission's decision to retain a 0% opex partial productivity factor.

<sup>7</sup> Commerce Commission, 2024, Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision, p 21

## 9 Incremental Rolling Incentive Scheme (IRIS)

### 9.1 Equal retention factors for opex and capex are supported

In its draft decision, the Commission has retained the use of symmetrical IRIS retention factors for opex and capex and updated the rate for the movement in the WACC. While the IRIS is highly complex and little is understood outside a small cabal of experts, ENA's view is that its continued application is appropriate as it delivers the intended incentives for EDBs and does not create an overt capex bias.

### 9.2 The inclusion of customer connection capex in the IRIS is not appropriate

The intent of IRIS is to share the burden of overspending and the benefits of underspending with consumers. This is appropriate when EDBs have control over the timing and scale of expenditure. However, it is not appropriate to apply the IRIS to expenditures over which EDBs have no control over either the timing or scale. Customer Connection Capex is a prime example of this type of expenditure.

ENA is concerned that the inclusion of Customer Connection Capex in the IRIS may have an impact on customers' incentives to seek decarbonisation solutions through electrification. This is because EDBs may be unwilling to be penalised for connection project costs exceeding the level allowed for in the regulatory settings.

Separately, as noted above, the Authority's signalled intent to directly regulate capital contributions and connection prices will further loosen EDBs' control of customer connection capex. Given this, the Commission must exclude customer connection capex from the IRIS.

## 10 Innovation and non-traditional solution allowance

ENA has been critical of the DPP3 innovation allowance. Specifically, the small scale of the allowance, the ex-post approval process and its resource-intensive reporting and application processes.

The Commission's open and earnest engagement with the sector on how innovation can be supported by the DPP regime is reflected in the proposed INTSA, which ENA supports.

Under the proposed criteria 5(c) for a project to be eligible for INTSA funding it must be "riskier than business as usual." ENA is concerned that this criterion:

- is not well aligned with the purpose of the INTSA; and
- the requirement to show that the EDB would not otherwise undertake the project risks further disincentivising EDBs from pursuing that or similar projects in the event the INTSA application is not successful.

Rather than use "riskier than business as usual," which is an ambiguous phrase, difficult to interpret with any precision and harder to substantiate with evidence, ENA recommends the Commission replace criteria 5(c) with the following:

(c) either—

- (i) the financial benefits to the EDB of the project or programme are uncertain; or
- (ii) there is a material risk that the project or programme may not result in:
  - (a) any financial benefit to the EDB; or
  - (b) a sufficient financial benefit to justify the investment.

If the Commission does not adopt the above and decides to retain a criterion that attempts to capture the idea of innovation as a relatively 'riskier' activity, then the Commission should consider either elaborating

on the definition or including a non-exhaustive list of indicative factors and practical examples of the circumstances in which a project or programme will be considered riskier than business as usual.

ENA supports the exclusion of interruptions associated with INTSA projects from the calculation of SAIDI and SAIFI quality standards. However, ENA believes that the exclusion should apply to the entirety of the INTSA interruption and should not be capped at 0.5%.

## 11 Quality standards and incentives

### 11.1 The existing approach to quality standards is supported

ENA believes that the existing DPP quality standards have delivered the level of quality sought by consumers. There is no evidence of a desire from consumers to alter the level of service delivered by EDBs. Therefore, ENA is of the view that the current regime comprising planned and unplanned SAIDI and SAIFI metrics is appropriate and supports the Commission's decision to retain it.

ENA also believes the Commission's decision to retain the principle of no material deterioration is appropriate, and the current approach to normalisation should be continued.

### 11.2 Setting reference periods and buffers in a changing climate

The decision to retain the 10-year unplanned reference period is supported. ENA also supports the Commission's decision to adopt a seven-year reference period for planned interruptions. The seven-year reference period better captures EDBs' increased use of notified planned outages to facilitate more proactive risk-based asset management practices.

ENA is concerned with the Commission's draft decision to halve the planned interruption buffer to 100% of historical levels. While the +/- 10% inter-period cap reduces the materiality of the impact of halving the buffer, ENA does not believe there is sufficient justification for a change of the magnitude proposed by the Commission.

If the Commission is of the view that a reduction in the buffer is necessary to reflect the introduction of the notified planned outage de-weightings, ENA believes the buffer should be set at 150% alongside the seven-year reference period and a +/-10% inter-period cap.

As climate change continues, it is likely that public safety regulators including FENZ and emergency services will direct EDBs to take action to reduce safety risks during bushfires, storms and floods by requesting the de-energisation of distribution lines. Without change, complying with these emergency procedures and requests could result in EDBs facing sanctions under the quality standards and incentive regime. ENA recommends that the Commission exclude all interruptions that result from an EDB complying with requests and procedures issued by FENZ, or another emergency service from all DPP quality standards and incentives assessments.

### 11.3 Disaggregation by region or customer type is unnecessary

The Commission has proposed to retain the current level of disaggregation for EDB quality standards. ENA supports this, as it is in line with the Commission's broader decision to maintain the no-material deterioration principle for quality standards.

### 11.4 Notified planned outage de-weighting

The Commission has proposed weightings for both notified and non-notified planned outages that differ between its assessment of quality standards and quality incentives. As a result, there can be a situation where an EDB is above the planned SAIDI target in the quality standard assessment but below the planned SAIDI target in the quality incentive (and hence gets a reward despite being above the standard).

However, there cannot realistically be a situation where this occurs, due to the scale of the weighting differences, and the impact of the buffer.

Nonetheless, ENA recommended that the Commission review the de-weightings for planned outages to remove the potential for this scenario to occur.

## Appendix A – ENA Members

Electricity Networks Aotearoa makes this submission with the support of its members, listed below. These 27 companies represent all of New Zealand's 29 lines companies.

Alpine Energy  
Aurora Energy  
Buller Electricity  
Centralines  
Counties Energy  
Firstlight Network  
Electra  
EA Networks  
Horizon Energy Distribution  
Mainpower NZ  
Marlborough Lines  
Nelson Electricity  
Network Tasman  
Network Waitaki  
Northpower  
Orion New Zealand  
Powerco  
PowerNet  
Scanpower  
Top Energy  
The Lines Company  
Unison Networks  
Vector  
Waipa Networks  
WEL Networks  
Wellington Electricity Lines  
Westpower



## Appendix B – proposed amendments to IMs

ENA recommends the Commission make the amendments shown in red below to the IMs to allow the implementation of the DPP4 wash-up account as set out in the draft decision.

### 3.1.4 Wash-up amounts

(2) Despite subclause (1), –

(a) in the case of Aurora Energy Limited, the ‘wash-up account balance’ for the disclosure year 2026 is:

(i) the closing wash-up account balance for the fifth ‘CPP assessment period’ (as that term is defined in the Aurora CPP determination), calculated in accordance with paragraph (2) of Schedule 1.6 of the Aurora CPP determination, adjusted by replacing “(1 + 67th percentile estimate of post-tax WACC)<sup>2</sup>” with the time value of money adjustment specified in the CPP determination or DPP determination that applies to Aurora Energy Limited from 1 April 2026; plus

(ii) the wash-up amount for the fifth CPP assessment period, calculated in accordance with paragraph (1) of Schedule 1.5 of the Aurora CPP determination; and

(b) for every other EDB, the ‘wash-up account balance’ for the disclosure year 2025 is:

(i) the closing wash-up account balance for the fifth ‘assessment period’ (as that term is defined in the DPP3 determination), calculated in accordance with paragraph (2) of Schedule 1.7 of the DPP3 determination, adjusted by replacing “(1 + 67th percentile estimate of post-tax WACC)<sup>2</sup>” with the time value of money adjustment specified in the CPP determination or DPP determination that applies to the EDB from 1 April 2025; plus

(ii) the wash-up amount for the fifth assessment period, calculated in accordance with paragraph (1) of Schedule 1.6 of the DPP3 determination.

(c) in the case of Aurora Energy Limited, the ‘wash-up account balance’ for the disclosure year 2025 is:

(i) the closing wash-up account balance for the fourth ‘CPP assessment period’ (as that term is defined in the Aurora CPP determination), calculated in accordance with paragraph (2) of Schedule 1.6 of the Aurora CPP determination, adjusted by replacing “(1 + 67th percentile estimate of post-tax WACC)<sup>2</sup>” with the time value of money adjustment specified in the CPP determination or DPP determination that applies to Aurora Energy Limited from 1 April 2026; plus

(ii) the wash-up amount for the fourth CPP assessment period, calculated in accordance with paragraph (1) of Schedule 1.5 of the Aurora CPP determination; and

(d) for every other EDB, the ‘wash-up account balance’ for the disclosure year 2024 is:

(i) the closing wash-up account balance for the fourth ‘assessment period’ (as that term is defined in the DPP3 determination), calculated in accordance with paragraph (2) of Schedule 1.7 of the DPP3 determination, adjusted by replacing “(1 + 67th percentile estimate of post-tax WACC)<sup>2</sup>” with the time value of money adjustment specified in the CPP determination or DPP determination that applies to the EDB from 1 April 2025; plus

(ii) the wash-up amount for the fourth assessment period, calculated in accordance with paragraph (1) of Schedule 1.6 of the DPP3 determination.

(5) For the purposes of clause 3.1.3(1)(n) and subclause (1), ‘wash-up drawdown amount’ for a disclosure year means an amount:

(a) that equals one of, or is between, the following amounts:

(i) zero; and

- 
- (ii) the wash-up account balance for the disclosure year two years prior (whether that balance is negative or positive) minus the wash-up drawdown amount for the disclosure year one year prior; and
- (b) that is the sum of:
- (i) an amount to be drawn down by the EDB in the disclosure year, as determined by the Commission for the purpose of returning the wash-up account balance towards zero over time and specified in a DPP determination or CPP determination; and
  - (ii) any additional amount to be drawn down by the EDB in the disclosure year, as nominated by the EDB and specified in its response to a notice under s 53N of the Act.

## Appendix C – ENA Template responses

Request for feedback on DPP4 draft decisions	
<b>Capital expenditure (capex)</b>	
<b>1. Capex</b>	
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.
<b>Views/Response:</b>	
<p>ENA supports the use of the 2024 AMP capex forecasts.</p> <p>While the approach represents an improvement on the DPP3 approach, ENA believes it is likely to force some EDBs to apply for costly and timely CPPs, which are unlikely to be in the long-term interest of consumers, especially those serviced by smaller EDBs. ENA recommends that the cap be raised to 130%</p> <p>ENA supports a five-year historical reference period.</p> <p>The inclusion of the uplift factor is a vital recognition of the uncontrollable uplift in EDB costs beyond those captured by the all-industry CGPI.</p>	

<b>Operating expenditure (opex)</b>	
<b>2. Opex</b>	
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]
<b>Views/Response:</b>	
<p>ENA prefers the use of EDB AMP forecasts for opex forecasting. However, the base-step-trend approach is a viable and appropriate alternative.</p> <p>The use of 2024 ID data as the base year is supported.</p>	

### 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:

The changes to the assessment criteria for step changes are appropriate, and ENA supports their adoption.

ENA supports the inclusion of the six step-changes identified. However, as discussed above, ENA’s view is that insurance costs are more efficiently dealt with via a pass-through mechanism (facilitated by an amendment to the IMs) or an independent cost escalator.

ENA’s view is that the 5% cap should be applied to individual steps, not in aggregate.

### 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:**

ENA’s view is that a single escalator should be applied to all opex, excluding insurance.

Insurance should not be a step change but have an individual escalator applied. The Commission’s report on insurance costs should be made publicly available.

The inclusion of the uplift factor is a vital recognition of the uncontrollable uplift in EDB costs beyond those captured by the economy-wide LCI and PPI.

The use of separate growth rates for network and non-network opex is supported.

ENA supports the use of a 2018-24 reference period for the econometric model.

ENA welcomes the retention of the 0% opex partial productivity factor. As detailed in the ENA response to the CEPA study, there is no robust evidence to support the adoption of an opex partial productivity factor in the DPP.

**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:**

ENA supports the changes to the INTSA. The improvements namely the move to ex-ante approval, the explicit provisions for co-operation and the increased scale of the allowances will enable better uptake and support the achievement of the objectives of Part 4.

ENA recommends that the INTSA criteria be amended to replace “riskier than business as usual” with the criteria that either:

- (i) the financial benefits to the EDB of the project or programme are uncertain; or
- (ii) there is a material risk that the project or programme may not result in:
  - (a) any financial benefit to the EDB; or
  - (b) a sufficient financial benefit to justify the investment.

The requirement for a project close-out report will ensure that the lessons learnt from INTSA projects are shared.

ENA agrees that the explicit inclusion of energy efficiency and demand-side management in the INTSA, mitigates the need for a specific energy loss incentive.

## 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:

ENA supports the Commission's decisions on quality standards except for QS5. ENA believes that the current approach should be retained. If the Commission is concerned with the movement between periods, the +/- 10% movement cap could be applied between periods.

ENA's view is that the planned reliability buffer for the planned interruptions reliability standard should be set at a 150% uplift on the historic average, capped at a +/- 10% movement from the current standard.

## 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:

ENA supports the continuation of the existing quality incentives scheme.

The plan and 'notified' plan reduction proportions are appropriate and supported by ENA.

ENA recommends the Commission review the de-weightings used for the notified outages to ensure that a situation cannot occur where an EDB is above the planned SAIDI target in the quality standard assessment but below the planned SAIDI target in the quality incentive (and hence gets a reward despite being above the standard).

## 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"> <li>- define a major event as 24-hour rolling periods (assessed in 30-minute blocks)</li> <li>- 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</li> <li>- normalisation is applied on half-hour blocks, within a major event, where the SAIDI figure exceeds 1/48th of the boundary value, and</li> <li>- 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).</li> </ul>
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:**

ENA supports the proposed approach to normalisation and recognises that it aligns with internal practice as promulgated by the IEEE.

**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.

**Views/ Response:**

The 10-year reference period for unplanned outages is supported.

The shorter 2017 – 2024 period for planned interruptions is also supported as it more accurately reflects EDBs proactive risk-based asset management practices.

Allowing EDBs to record successive interruptions on the same basis they have historically employed them will ensure comparability of EDB performance throughout time.

**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:**

ENA supports the retention of the use of the BBAR model to set starting prices.

Setting the p0 at a real 20% strikes the right balance between price upfront price shocks and ongoing increases throughout the period.

The 10% per year real increase for years 2-5 of the regulatory period is appropriate. However, ENA recommends that it be applied on a per MWh basis to capture the increased use and dependence on electricity as New Zealand decarbonises.

ENA welcomes the additional information provided on how the Commission intends to apply its financeability sense check. This approach aligns with advocated for by ENA throughout the IM review and DPP process to date.

**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:**

The retention of equivalent capex and opex retention rates is supported.

Customer Connection capex should be excluded from IRIS. Its inclusion in the IRIS disincentives new connections and punishes/rewards EDBs for expenditures they have no control over.

ENA supports the use of real opex and capex forecasts in the 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:**

The retention of the revenue cap approach for the form of control is welcomed given the higher-than-usual uncertainty regarding electricity consumption and connection growth stemming from the electrification of transport and process heat in New Zealand.

While ENA understands the intent of the voluntary undercharging limit, capping this during a period of significant cost-of-living pressures does not appear to be in the long-term interest of consumers. ENA recommends that if the Commission views a cap as necessary it should be set at 20% of MAR. ENA’s view is that the revenue smoothing limit would protect any price shocks from voluntary under-recoveries being recouped in future years.

ENA does not oppose the inclusion of a LCC wash-up mechanism.

The revenue smoothing limited wash-up of 10% per annum is workable and appropriate.

ENA has identified an error in the IMs which prevents the DPP3 washup account balance from being drawdown in the first year of the DPP4 regulatory period, The consequence of this is that the wash-up amount accrues for three years, rather than two.

The issue arises because some of the IM terms to be used in DPP4 were not used in DPP3, specifically in this instance the wash-up account balance. ENA has proposed a set of IM amendments (appendix B) to address the issue and will give effect to the price path settings and assumed profile for the wash-up drawdowns assumed in the Draft Decision.

**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:**

ENA supports the retention of the five-year regulatory period as it strikes an appropriate balance between the cost of the DPP process, and the risk associated with forecasting accuracy.

ENA supports the CPP application timings.

**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:**

ENA supports the use of historical values for disposal allowances.

The use of the most recent base year data (Disclosure year 2024) is supported.

The use of EDB forecasts of depreciation will mean that the regulatory depreciation allowances will more closely match their regulatory depreciation expenses. The Commission should apply the same logic to the asset lives for assets commissioned during the period.

The Commission should therefore replace the arbitrary 44-year useful life currently applied with:

each EDB's weighted average useful life of commissioned assets over the current regulatory period; The RBNZ MPS forecasts are the most appropriate tool for complying with the IM's approach to CPI forecasting.

ENA notes that the WACC is being set when the risk-free rate is at its peak and likely to fall throughout the period. Due to the approach to WACC taken in the IM, consumers will not see the benefits from the falling interest rates until the next regulatory period.