2 August 2024

Ben Woodham
Electricity Distribution Manager
Commerce Commission
Wellington 6140
New Zealand City

Dear Ben,

Cross-submission on default price-quality paths (DPP) for electricity distribution businesses

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

ENA is the industry membership body that represents the 27 electricity distribution businesses (EDBs) that take power from the national grid and deliver it to homes and businesses. ENA harnesses members' collective expertise to promote safe, reliable and affordable power for our members' customers.

Proposed backloaded smoothing would lead to bigger revenue increases for longer

ERANZ and MEUG suggested in their submissions that the Commission change its smoothing profile to defer revenue increases to the later years of DPP4. ENA opposes this as it will:

- impact EDB cash-flows and financeability (these implications are quantified via the proposed DPP4 'sense check')
- create a bow wave of revenue increases. Noting that to maintain NPV equivalence the nominal increases in these later years will be substantially higher than under the Commission's proposed approach
- give rise to increased price volatility and a larger revenue collapse between DPP4 and DPP5.

Capital Expenditure

ERANZ, Fonterra and MEUG overstate capital expenditure impact on prices in the short term. In their submissions, both Fonterra and MEUG called for lower capital expenditure caps to mitigate price increases in the near term to not burden consumers during the current "cost of living crisis".

The Commission's tweak of the cap moving from 120% to 125%, has only a minor impact on consumer distribution prices. Horizon Energy's submission demonstrates just how little impact raising the cap would have on EDB revenues during the period. For example, an increase in the cap from 125% to 130% would result in a total increase in EDB revenues of 0.3%.

In the lead-up to the DPP4 draft decision, EDB's AMPs have been subject to independent scrutiny by the Commission and its consultant IAEngg. This scrutiny has been greater than for any previous DPP reset. It is more than sufficient to give the Commission confidence that a cap of 130% of historical capex is proportional to the level of scrutiny and in the long-term interest of consumers.

Fonterra has, in its submission, claimed that EDBs earn windfall profits via capital contributions. This demonstrates a fundamental misunderstanding of how capital contributions are treated from a regulatory and accounting perspective. EDB capital contributions are reported annually via Schedule 6a of the Information Disclosures (IDs) and deducted from EDB's gross capital expenditures. EDBs do not earn a return on any assets funded but capital contributions.

ENA's view is that the risk and cost of EDBs not investing in DPP4 will be orders of magnitude larger than the potential 0.3% increase in revenues (equivalent to 57c per month) that would result from a cap set at a minimum of 130% of historical capex.

The Oxford Economics Australia (OEA) study quantifies, the exogenous cost increases over and above the Commission preferred cost indexes incurred by EDBs since the introduction of the price-quality regime. Based on the evidence provided by OEA, ENA recommends that the Capex uplift be increased to 1.5% per year (from the proposed 0.8%).

Deliverability

Some submitters have questioned the ability of EDBs to deliver the works programmes set out in their AMPs. EDBs have demonstrated time and time again their ability to flex, evolve and deliver work programmes that meet both the immediate and long-term needs of their communities. Most recently, EDBs across the North Island mobilised at short notice to respond to and rebuild after the catastrophic destruction caused by Cyclone Gaberial. EDBs facing increased expenditure in DPP4 are not starting from scratch and have been planning and ramping up their work programmes, skills bases and resources over DPP3.

Detailed scrutiny by the Commission of EDB project deliverability is not consistent with the low-cost DPP regime (a key difference between the DPP and the Transpower IPP). Under this regime, the Commission does not assess or approve project or programme expenditures but a total funding envelope.

Innovation and non-traditional solutions allowance (INTSA)

Many submitters including MEUG, Ecobulb, Rewiring Aotearoa etc. called for the upper limit of INTSA to be increased to 5% of allowed revenue. ENA supports an increase in the INSTA funding limit so long as doing so would not materially increase the reporting burden on EDB and the ex-ante INTSA approval mechanism is retained.

There was support amongst submitters for increased EDB expenditure non-network solutions. Innovation is important to the future operation of EDB distribution networks. However, it should not come at the expense of EDB's core, if unsexy, asset replacement and renewal expenditures which are vital to the safe and reliable operation of distribution networks.

Operational Expenditure

ENA notes that OEA found that EDB network opex costs have likely increased by more than the 0.3% uplift factor proposed by the Commission. ENA views this as evidence that the 0.3% uplift to the LCI/PPI ratio should at a minimum be maintained, if not increased.

The current DPP reopeners are skewed towards capital expenditures (i.e. catastrophic events, and major project reopeners). The recent changes to the IMs allow for opex to be included in specific reopeners. However, ENA's view is that specific opex-based reopeners should included in the IMs and implemented for DPP4. These reopeners should at a minimum cover:

- resilience (i.e. step changes in proactive maintenance)
- vegetation management (particularly important given the current consultations on changes to the Hazard from Trees regulations)
- field service contract renewals.

These reopeners would be subject to proportion scrutiny and dovetail with the proposed capped opex step changes to deliver DPP flexibility, appropriate scrutiny and long-term benefits to consumers.

Additional reporting

ENA disagrees with MEUG's view that the imposition of Annual Delivery Reports (ADRs) would support consumers. Consumers already have access to a huge amount of EDB data via annual ID reporting and compliance statements. There is no evidence that consumers are making use of the available EDB information.

As noted above, under the low-cost DPP regime, the Commission sets an allowance envelope rather than a specific list of projects and programmes. As such it is unclear what purpose the DPP ADRs would serve but it would further increase the already heavy reporting burden on EDBs, which includes huge volumes of AMP reporting within the IDs.

ENA members' experiences with CPP ADRs have been mixed with Powerco's finding that community-specific engagement is more useful than network-wide engagement through general reporting such as the ADR. For example, on average over the past three years, Powerco's ADRs have only been downloaded 239 times per annum. Aurora has been open with the Commission about its difficulties in maintaining consumer interest in its CPP engagement programme.

Reopener guidance

The advice from PwC submitted by the "*Big Six EDBs"* provides clear guidance on the operation of the DPP reopeners. ENA encourages the Commission to adopt this clear, detailed guidance as its own.

Within the current reopeners, it is also unclear if significant asset replacement and renewal (ARR) capital expenditure would be eligible for DPP reopeners. This poses issues for smaller EDBs where individual ARR projects such as the end-of-life replacement of a substation may necessitate a material uplift above historical levels of capex.

EDB-proposed initiatives

ENA supports the views expressed by its members in their submissions to the Commission. ENA believes that there is significant value in the following initiatives proposed by its members being adopted by the Commission:

- the reconsideration of the regulatory calendar and changes to the requirement for AMP disclosures in years 1, 2 and 5 of the DPP (Vector)
- the introduction of a de-minimis threshold for adjustments to revenue and quality paths following the transfer of ICPs (Aurora)
- the removal of the prescriptive requirements for "additional notice" reporting and the use of EIEP5A to monitor compliance (Aurora).

Yours sincerely,

Keith Hutchinson
Regulatory Manager