19/100
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Dear Dane,

SUBMISSION ON DEFAULT PRICE-QUALITY PATHS – UPDATED DRAFT MODELS

Unison Networks Limited (Unison) welcomes the opportunity to submit on the Commerce Commission's (Commission) *Default price-quality paths for electricity distribution businesses from 1 April 2020 – Updated draft models -Companion Paper.* We have contributed to the development of the ENA's submission and support the recommendations contained. In this submission we focus on key issues for Unison, rather than duplicate the responses in the ENA's submission.

In this submission we address the following:

- Updates to the CPI forecasts
- Normalising half hours
- Replacement of major events with the boundary value

FINANCIAL MODEL DATA

CPI forecasts
The global economy continues to show signs that is weakening quickly. If this continues to put a significant check on CPI inflation, such that it does not rise to the RBNZ's forecasts, EDBs' returns will not meet the lowered WACC. Unison remains extremely concerned that the CPI forecasts are too high in the context of global indicators to the very likely detriment of our shareholders.

We recommend that Commission review the updates to the CPI forecasts in the Final Decision for the outer years of the 2020-2025 regulatory period. Given the deteriorating international outlook the CPI forecasts appear significantly optimistic. In light of substantial downside risk to businesses with the already reduced WACC, forecasting of the CPI should be conservative.

QUALITY STANDARDS AND RELIABILITY INCENTIVES

The complexity of the proposed new approaches creates risk that an EDB will not correctly apply the intended methodologies for normalisation. We recommend that following the publication of the Final Decision there is real need for further industry workshops for the Commission to explain the approaches, including how they link into the wider framework and enforcement criteria.

Normalisation

Unison agrees with the proposal to adopt a 24-hour normalisation approach as being more consistent with operational practices, though we are unsure that it is fully effective in normalising half hours that do not reach the boundary value within the 24-hour period, when operating performance may be impaired.

Replacement of major events with the boundary value

Unison reiterates its strong concern with the replacement of major events with the boundary value. The approach means that EBDs who face more than the assumed frequency of major events, would therefore face resulting financial penalties and a greater risk of breach.

As a network with a diverse consumer base, we face significant challenges associated with managing affordability for our consumers. Unison is concerned that it may need to over-invest to avoid risks of breach. Increased (over) investment may be the only solution for EDBs if there are years with more than the assumed frequency of major events (more storms on average for a year), resulting in the EDB trying to meet SAIDI targets much lower than set in those years to achieve compliance.

The Commission has not addressed the policy rationale for penalising EDBs for higher frequency of severe weather events, than assumed in setting the targets, nor the reason for effectively penalising consumers for benign weather years. In addition, the outcomes are not symmetric, EDBs face the jeopardy of both penalties and costly engineering investigations, whereas consumer exposure to good weather is limited to zero MEDs.

We strongly recommend that the Commission reviews its proposed approach to ensure that it does not result in over-investment by networks. The possibility of severe consequences for compliance breaches may incentivise EDBs to over invest to avoid the risk of breach in years where there are more severe weather events than average. Such a result is likely to be inconsistent with the price/quality trade-off requirements of our consumers.

CONCLUDING COMMENTS

In conclusion we:

- **Review** the updates to the CPI forecasts in the Final Decision for the outer years of the 2020-2025 regulatory period given the deteriorating global economy outlook, taking into account the substantial downside risk to businesses.
- **Recommend** the replacement of major events with the boundary value is reviewed in the context that it may incentivise EDBs to over invest to avoid the risk of breach in years where there are more severe weather events than average.

We would be happy to discuss any of the points made in this submission with the Commission.

Yours sincerely,

Nathan Strong
GENERAL MANAGER BUSINESS ASSURANCE