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Tēnā koe Ben,

Submission on EDB DPP4 Draft decision

Introduction

1. PowerNet Limited (PowerNet) appreciates the opportunity to make a submission to the Commerce Commission (the Commission) on the Default price-quality paths for electricity distribution businesses from 1 April 2025 – draft decision paper.

2. PowerNet is an electricity management company with its head office based in Invercargill. It is a joint venture company, owned (50/50) by Electricity Invercargill Limited (EIL) and The Power Company Limited (TPCL). EIL and TPCL established PowerNet in 1994 to achieve economies of scale through integrated network management across the Southern region's Electricity Distribution Businesses (EDBs).

3. PowerNet manages the non-exempt EDBs of EIL and OtagoNet Joint Venture (OJV), the exempt EDB of TPCL and Ruakura EDB Limited Partnership (Tainui Group Holdings Limited), and the non-grid connected Stewart Island Electric Supply Authority (SIESA).

4. We manage an asset base and investments in excess of NZ$1 billion. The aggregated electricity distribution asset base managed by PowerNet is the fourth largest in New Zealand. It provides services to over 75,000 customers through more than 14,200 circuit kilometres. In addition to EIL operating in Invercargill and Bluff, TPCL operates in Southland and West Otago, OJV in rural and coastal Otago region that surrounds Dunedin City, Lakeland Network (LNL) in the Frankton, Cromwell and Wānaka regions, and SIESA on Stewart Island.

5. PowerNet has long-term management agreements in place with EIL, TPCL, OJV, LNL and Ruakura, with the benefit of integrated business management systems in place, and a core purpose and expertise in asset management capability.

6. PowerNet supports the submission made by the Electricity Networks Aotearoa (ENA) and have included in our own submission key issues that we wish to raise with the Commission. We support aspiration to reach net zero emissions by 2050 and 100 percent renewable energy generation, that is not cost prohibitive, by 2030. We acknowledge the important role distribution networks will play in supporting New Zealand's transition to an electrified nation and a low emissions economy.

Key points

7. Firstly, PowerNet would like to recognise the Commission for the way in which they have proposed to deal with some significant issues facing the electricity sector. We note in particular:
    - acknowledging through revenue allowances the step changes required from DPP3
    - mitigating price shocks to customers by limiting increases and smoothing revenue
    - use of the 2024 asset management plans (AMPs) to establish CAPEX allowances
    - acknowledging opex increases in insurance, cyber, software-as-a-service (SaaS), consumer engagement, and low voltage monitoring and,
    - maintaining quality standards with only minor changes.

8. We encourage the Commission to maintain all aspects of the above points in their final decision.

Deliverability

9. PowerNet note the Commissions concerns around deliverability of the AMPs, however we are confident that we can meet the requirements for our Networks.

10. PowerNet, like many others throughout New Zealand, both within the electricity sector and broader, need to manage the challenges around both recruiting and retaining industry resource and is actively managing this. While people resources provide particular solutions, this can and will be complemented with seeking innovative solutions to fill the capacity and resourcing required for the transition to a decarbonised and electrified New Zealand. The current skills shortage in the industry is mirrored overseas and results in competition for resources domestically and globally. This may drive increased cost pressures for the sector and infrastructure providers in general.

11. PowerNet has been successfully recruiting line staff from the Philippines to meet the basic demands of growth within the networks we manage, and to meet the current demand reflected through the managed networks approved asset management plans (AMP). Additionally, PowerNet has an active domestic recruitment approach, including qualified and trainee intakes, and through establishing a talent pool of interested and qualified professionals. We are cognisant that this demand will only grow, and our aging skilled work force will need to be replaced faster than we have had to historically, however we understand the challenges ahead and believe resourcing can and will occur with the right strategies deployed.

12. The challenge for industry resources is not limited to field staff, whereby the foreseeable increase in smart technology will see an increased need in cyber security alone, alongside an overall expansion in the requirement for engineering and corporate functions to plan for and support the field-based operations. PowerNet is pleased to see the Commission acknowledge the step changes required in operational expenditure, particularly in areas such as cyber, insurance and software as a service. We expand on issues relating to insurance specifically further in our submission.

13. The challenges facing the industry for capacity and skill base are not insignificant. The projected increase in the grid, followed by demand for distribution (the accelerated scale and volume of new connections and increased energy demands) will place increasing pressure

on EDB's such as PowerNet to continue to drive efficiencies and ensure there are innovative solutions to how we deal with this issue.

14. PowerNet supports the ENA submission whereby they state that EDB's are building capacity and "are confident they will deliver the capex and opex programmes set out in their 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."[1]

Financeability

15. Electrification is at the core of NZ's decarbonisation strategy and will need significant investment in transmission and networks in a relatively short period of time. The step-change in investment for the electricity industry is unprecedented and therefore requires an unprecedented approach to ensuring capital can be raised year on year to meet this requirement. Operating in the same way as we have always done will not get us there.

16. PowerNet acknowledges that the draft DPP4 decisions have attempted to balance both the costs to consumers of today, and the returns of stakeholders to warrant investment and help mitigate the risk of this investment for intergenerational infrastructure.

17. The regulatory allowances need to be sufficient to ensure shareholders/investors are willing to provide the finance that is required to support efficient investment. For this reason, PowerNet strongly encourage the Commission to consider allowances at the full value of the 2024 AMP schedules. The step changes that have occurred across the sector in resources (both infrastructure and human), in service provision, maintenance, resilience and capacity building have left EDB's revenues and returns starting the DPP4 period below what is needed to incentivise investors to ensure New Zealand has an electrified and affordable electricity supply. While PowerNet supports the draft decisions around allowable revenue and are very welcome, we advocate for the full allocation to be made to minimise the impact of consumers today paying for the consumers of the future.

18. We note specifically that OtagoNet will only just be fully recovered towards the end of DPP, following a period where DDP3 revenues resulted in operating cash flows being insufficient to fund capital expenditure, without new investor capital, due to significant cost increases incurred throughout DPP3. Restoring shareholder returns to where they should have been, is an important consideration of the draft decision for DPP4. Where shareholders only break even or worse, there is considerable risk that the appetite to invest and innovate is materially reduced.

19. PowerNet, in light of an understanding that we cannot continue to do what we have always done if we are to have unprecedented investment, have previously advised that we are currently working with KPMG and other electricity businesses to look at alternative funding models. One of the key drivers in this work is to consider that costs must be allocated to users in a way that is commensurate with the benefits they receive and when they receive them. Intergenerational equity and affordability are a critical element in the issue of financeability and regulatory constraint. PowerNet will continue to seek alternate and innovative ways to ensure an equitable electricity network, and commensurate returns for investors.

[1] *ENA submission DPP draft decision;* (pg 3)

20. PowerNet supports the ENA submission and agrees that the draft decision from the Commission around financeability is largely appropriate.

Opex step-changes

21. PowerNet acknowledges the Commission opex increases in insurance, cyber, software-as-a-service (SaaS), consumer engagement, and low voltage monitoring. However, we note the ENA submission around the aggregate 5% cap to opex step changes, and further support individual caps, rather than the aggregated 5%.

22. In particular we note insurances, and while welcoming the acknowledgement from the Commission of increased costs in this area, PowerNet expects costs to continue to rise well past the 5% cap. Whilst PowerNet is proactively seeking solutions to position our Networks for the future through the establishment of an Insurance Captive, we would welcome the Commission removing insurance from the aggregate cap and apply a specific insurance escalator, or as a pass-through cost.

23. In addition, PowerNet also supports the ENA submission, that a five-year period for opex modelling is not the most appropriate reference point, and we support a 10-year period as more appropriate. We also acknowledge the retention of the base-step-trend approach, and support this as an appropriate approach for opex expenditure DPP4.

24. Alongside the identified opex increases, PowerNet also draws attention to the issue of increased traffic management costs. The New Zealand Guide to Temporary Traffic has brought substantial changes and transfer of risk to PCBU's such as PowerNet and other EDBs. The most significant change being the role of Road Controlling Authorities (RCA's) no longer being the approver of Traffic Management Plans. This will now fall to the lead contractor, and involves considerable expertise, and time commitment. The extensive nature of traffic management work undertaken by EDB's results in this bringing considerable additional cost and risk to the industry and will take some time to embed as a business-as-usual function.

25. PowerNet and the networks we manage are seeking our own solutions to issues that might impact our ability to insure, invest and maintain infrastructure that is safe, secure, resilient, and affordable for future generations and those of today. We have been and will continue to be innovative in our approaches and solutions focused, with or without the need for further regulation.

Quality measures

26. PowerNet supports the Commission's proposal of a seven-year reference period for planned quality standards, SAIDI and SAIFI, and appreciate the retention of existing quality measures. However, we do not support reducing the planned interruption buffer from 200% to 100%. PowerNet supports a 150% buffer with a seven-year reference point as a more appropriate mid-way point from the DPP3 to the DPP4.

27. PowerNet is increasing resilience on our networks. In order to achieve this, we have greater instances of planned works and outages. By significantly reducing the buffer there is little incentive to effectively bolster resilience of the network while gaining penalties through SAIDI and SAIFI. We would ask the Commission to reconsider this decision and find a compromise that meets the expectations of EDBs and regulators in the quality buffer.

Revenue smoothing

28. PowerNet supports and reiterates the ENA submission around revenue smoothing. The draft decision from the Commission proposes smoothing based on real revenue per installation control point (ICP). While this will capture any significant growth on the network, it will not reflect the increase in consumption for existing ICPs as New Zealand electrifies and moves to decarbonised solutions.

29. PowerNet would therefore support revenue smoothing limits based on both ICP growth and energy usage and growth. This is particularly important given the number of large commercial users we service throughout the Southland and Otago Networks.

Depreciation for new assets

30. PowerNet supports the comments made in the ENA submission. The Commission is proposing an arbitrary 44-year asset life for all assets commissioned during the regulatory period. Typically non-network solutions have a shorter lifespan.

31. As an EDB actively working in the space of non-network solutions, employing a dedicated team with expertise in new energy solutions, PowerNet is concerned that there will be greater costs incurred over a shorter period through depreciation of non-network asset solutions. We would encourage the Commission to take the approach recommended in the ENA supported submission of adopting "adopt each EDB's average useful life of assets commissioned during DPP3 as their standard life for assets commissioned in DPP4."[2]

Flexibility

32. As noted in the ENA submission, the Commission appears to be expecting EDBs to make use of re-openers and customised price-quality paths (CPPs) for any uncertain or large step increases to be appropriately assessed. While PowerNet acknowledge that reopeners are available, whereby allowing changes to be made to the five-year plan, we maintain that they have the potential to be costly, slow and resource hungry to engage in.

33. In addition, our decarbonisation customers want to consider a variety of options and expect prompt decisions and turnarounds. A rigid regulatory regime is not conducive to their needs. Allowing more flexible assessments and adjustments to regulated expenditure would allow for the adaptation and evolution of the energy industry that is required as we transition to a more renewable electricity system.

34. Regulations should have agility to allow EDB's to invest in more sustainably resilient, secure, and reliable networks that recognise diversity of electrified energy consumption and are less based on the traditional model of economic efficiency. This means that aligning regulatory settings to historical trends may not align with the significant investment required for the energy transition. The regulatory environment should reflect the changing energy landscape and need for a more modern, resilient, and sustainable grid infrastructure.

[2] *ENA Submission DPP Draft Decision*; 6.1 (pg8)

35. In setting allowances for DPP4, we acknowledge the Commission has made a thorough effort to balance significant issues facing the sector, and we also acknowledge the challenge of doing so in a time of such heightened rate of change. Understanding consumer demand, the requirements of our networks in both improvement and investment, and leading change in the new energy space, are all areas that PowerNet has confidence and proven ability to respond appropriately in.

36. PowerNet reiterate that the regulatory allowances applied to DPP4 need to be sufficient to ensure shareholders/investors are willing to provide the finance that is required to support efficient investment. For this reason, PowerNet urge the Commission to consider allowances at the full value of the 2024 AMP schedules.

General comments

37. PowerNet wish to thank the Commission for their considerable time and effort in engaging with the electricity sector, and in their transparent process to establish the next regulatory period (DPP4).

38. At an aggregate level, PowerNet is supportive of the draft decisions put forward in the DPP4 draft decision paper. We have noted specifically our confidence in the deliverability of our managed networks approved asset management plans (AMP), and note our preference for the full revenue allowance to be available to ensure we have the appropriate level of incentive to invest and maintain the networks to an appropriate standard for the long-term future of both consumers and investors.

39. PowerNet and the owners of the network we manage are committed to building reliable electricity networks that are safe, resilient, and renewable. The PowerNet managed networks cover a vast area of Southern New Zealand. We maintain the second largest pole population in the country and operate under a network management business model managing multiple EDBs. We are committed to diversification and growth and have vision to invest in renewable energy for a sustainable future. We would welcome opportunity to discuss any issues raised in this submission as required with the Commission should the opportunity arise.

PowerNet Contact

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