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Firstlight Network cross-submission on DPP4 Draft Decision

Firstlight Network (Firstlight) is pleased to make this cross-submission on the draft decision for the 2025-2030 Default Price-Quality Path (DPP4) for Electricity Distribution Businesses (EDBs). Firstlight is a member of Electricity Networks Aotearoa (ENA), and we support ENA' s submission. Firstlight is a part of the Clarus Group of companies.

Opex step change cap should be reconsidered

We agree with Horizon Energy's submission that smaller EDBs like Firstlight are at a relative disadvantage in the application of the cap on Opex step changes applied in the draft DPP4 reset decision. This is because the cap is percentage-based, which disproportionately impacts smaller EDBs that have lower total Opex. A 5% cap represents a smaller absolute amount for smaller EDBs. Since some costs, such as certain SaaS solutions and cybersecurity measures, are effectively fixed regardless of the size of the EDB, smaller EDBs must spend a larger proportion of their Opex on these essential functions (so the cap is more likely to apply).

Firstlight has had its total non-network Opex step change capped by the 5% limit, despite identifying more justifiable step change [redacted]

We ask the Commission to reconsider the application of the Opex step change cap for smaller EDBs. Potential solutions could include:

- Deeming steps changes that are largely independent of EDB scale (e.g. cybersecurity) exempt from the cap
- Specifying a dollar value cap to apply before the use of a percentage cap, with the cap set at the greater amount. We believe this is consistent with the suggestion made by Wellington Electricity (WE) in its submission.

These measures would help ensure smaller EDBs like Firstlight Networks are not unfairly disadvantaged by a percentage approach and can undertake the necessary expenditure to ensure we can meet the needs of our customers.

The recent acquisition of Firstlight Network is relevant to DPP4 Opex allowances

Many of the issues highlighted by other EDBs in submissions apply in specific ways to Firstlight Network as a recently acquired business. We believe that this warrants additional consideration as part of the DPP4 reset to ensure that the regulatory framework does not discourage future ownership transfers that benefit consumers.

Firstlight is still being integrated into our ownership and Group structure, which compounds potential issues using historical expenditure to set future allowances since past expenditure is unlikely to accurately reflect our future needs and efficient costs. Potential impacts of this include:

- The base-step-trend approach relies heavily on historical data to forecast future expenditure. However, for Firstlight, historical data does not accurately reflect our future operational needs or efficient costs. Our past expenditure under previous ownership may not have adequately provided for prudent maintenance, vegetation management, or capability improvements.
- Firstlight is implementing improved asset management practices and operational strategies. These changes mean our future expenditure profile will differ from historical levels. This requires higher expenditure in the short to medium term that is not captured in historical amounts.
- The current mechanisms (including IRIS) may penalise us for necessary increases in expenditure to reach an efficient steady state, potentially creating incentives that are not in the long-term interests of consumers in Tairawhiti and Wairoa.

Given these factors, we suggest that the Commission considers a more tailored approach for Firstlight Network. This could include:

- Utilising the base year adjustment mechanism within the current DPP Opex projection model to include step changes relating to network Opex
- Providing additional flexibility when assessing step changes to accommodate the unique circumstances of a business in transition
- Implementing a specific 'reopener' mechanism to reassess our Opex needs as we progress towards steady state operations (as suggested in Wellington Electricity and Powerco submissions).

By adopting a more tailored approach for EDBs not fully integrated post-acquisition, the Commission can ensure that the DPP framework supports businesses that are in transition (e.g. due to mergers and acquisitions or other exceptional circumstances).

Further support for proposed SIE step change

Firstlight applied for a step change in forecast Opex for Service Interruptions and Emergencies (SIE) to support our ability to respond to faults and other outages. This expenditure supports key activities on our network, including:

- Initial response to unplanned events, with a primary focus on ensuring safety
- Restoring services and identifying required remedial actions, including temporary generation support where necessary
- Undertaking repairs to restore assets to a fully operational state

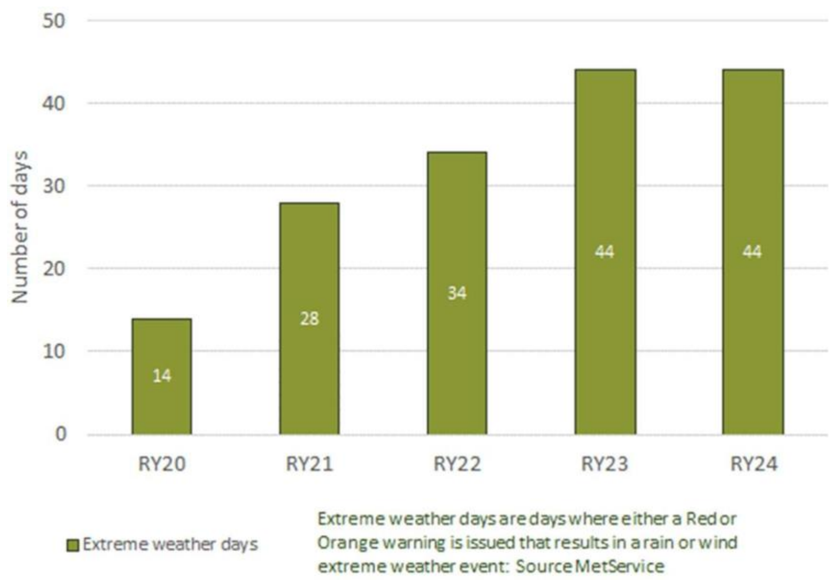
The Commission did not allow this step change in the draft decision, citing a lack of supporting evidence. We note that Vector's submission appears to point to the need for a similar uplift (which Vector calls “storm response”), and we have taken this opportunity to provide additional evidence and justification for this important step change.

We note that Wellington Electricity has made a submission in support of the creation of a new Opex reopener. We particularly agree with Wellington Electricity that “A reopener should be available to networks to apply for additional opex allowances needed to maintain a network's quality standards." This would allow the Commission to apply a higher level of scrutiny to new allowances.

In our 2024 AMP Update forecasts, we identified a need for an increase to SIE expenditure relative to our 2023 AMP. This increase is based on:

- Expectations of ongoing severe weather events
- The increasing cost to address outages on our network

To support our forecast, we obtained information from MetService detailing severe weather events during the past five regulatory years. This data demonstrates a sharply increasing trend in the frequency of severe weather events affecting our network – from 14 in RY2020 to 44 each in RY2023 and RY2024.



Firstlight included a step change to support our ability to effectively manage the increasing number and duration of outages. We believe this accurately reflects the changing nature of our operating environment (including ageing assets and more severe weather) and the increased resources required to maintain network reliability and avoid future breaches of our quality standards.

For these reasons, we continue to believe that a step change of $751,000 is required, which represents the average annual SIE expenditure in our AMP forecast over DPP4 versus our RY24 expenditure. We believe this step change is justified and necessary for several reasons:

- Increasing frequency of severe weather events: as set out in Vector's submission and evidenced by the MetService data, electricity networks (including ours) are experiencing more frequent and severe weather events, which directly impact levels of SIE expenditure.
- Diverting resource from routine maintenance to cover increased SIE activity could lead to a backlog of preventive maintenance. This may result in more frequent faults and outages in the future, ultimately degrading network reliability

- Without adequate resources to respond to and resolve unplanned events quickly, we face an increased risk of exceeding our SAIDI and SAIFI limits, potentially resulting in breaching our quality standards
- Longer outage durations and more frequent interruptions directly affect our customers, impacting their daily lives and the local economy
- Increasing our SIE capabilities will mean that we can improve our resilience to extreme weather events, ultimately benefiting customers through improved reliability.

We urge the Commission to consider this additional evidence and to approve our SIE Opex step change request. We believe this expenditure is in the best interests of our customers and is necessary to maintain a safe and reliable service in the face of increasing operational challenges.

Contact details

Firstlight would welcome the opportunity to meet with the Commission to discuss any points made in this cross-submission. To arrange this meeting or if you have any questions, please contact me via email at [redacted]

Yours sincerely

[redacted]

Saba Malik
Regulatory & Policy Manager