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12 July 2024

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Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision

Introduction
The Lines Company Limited (TLC) thanks the Commerce Commission (Commission) for the opportunity to submit on the Commission's *Reasons paper: Default price-quality paths for electricity distribution businesses from 1 April 2025 – Draft decision*. The Commission seeks feedback on the draft decisions before the Commission makes final decisions by 29 November 2024.

TLC's submission
TLC's views are in *TLC Attachment A, selected responses from the Commission's Guidance and template for submissions on draft decisions*. We recognise that the Commission has a lot to consider for the final decision, so we provide concise input on specific issues for TLC and our community. TLC is also a party to, and supports, the Electricity Networks Aotearoa (ENA) submission.

TLC's Opex Step changes
TLC provides the Commission with a workbook supporting our Opex Step change application for DPP4 with regards to Software as a Service (SaaS).

Summary
We acknowledge the Commission's consultation, engagement, consideration and work to date, and we look forward to the Commission's final decision. If the Commission has questions for us, please get in touch with Craig G. Donaldson, Pricing & Regulatory Specialist, at [redacted] or [redacted].

Yours sincerely

[redacted]

Romay Rundgren
General Manager Finance

TLC Attachment A: selected responses from Commission's Guidance and template for submissions on draft decisions

Operating expenditure (opex)

2. 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:

Draft decision

The Commission's draft decision is to change the opex step change decision-making framework to one that uses factors that inform judgment, rather than criteria that all must be met. The factors used to assess step changes are whether the step change is:

- Significant
- Adequately justified with reasonable evidence in the circumstances
- Not be captured in the other components of the DPP allowance
- Have a driver outside the control of a prudent and efficient supplier
- Be widely applicable

TLC agrees that amending the criteria means there is more discretion to ensure EDBs can sufficiently maintain and invest in their businesses and networks for the long-term benefit of their consumers. This is a good thing to allow greater discretion and flexibility.

Step changes

TLC acknowledges that the Commission's draft decision is that a step change for insurance costs is to be applied to all EDBs. We agree that maintaining an appropriate level of insurance cover is in the long-term interests of consumers. The Commission has also applied a step change related to the cost of accessing LV network data which TLC agrees with.

TLC has not applied for a step change relating to greater consumer engagement – we are proudly community owned with our community being at the heart of everything we do. We have a dedicated Customer & Community Engagement team with these costs being captured in the other components of the DPP allowance and not considered a step change.

[redacted]

Application for step change – software as a service (SaaS)

TLC applies for an opex step change for the costs of software as a service (SaaS). As the Commission notes, EDBs have indicated that they are looking to transition their current IT systems (accounted for as capex) to cloud-based 'Software as a Service' systems.

TLC commenced this work a few years ago, moving our finance and accounting systems to a SaaS solution. Over DPP4, we are implementing multiple systems and upgrades with our digital utility programme: CRM, GIS Upgrade, ADMS, AMS and line design software.

Looking after our network is core business through exceptional asset management – maturity costs money and TLC is investing in new systems, processes, and technology to take us forward to achieve a higher level of asset management maturity. TLC is investing in building our capability to achieve a step-change in performance. Our focus is to promote the right behaviours, making performance transparent, and supporting continuous improvement efforts. This software will assist us in providing a better service to our customers creating long term efficiencies and enabling better asset management for the long-term benefit of consumers. Accordingly, the forecast movement in our opex is significant with increased SaaS solutions. We include with our submission a workbook detailing these step changes for consideration of an opex step change.

We invite the Commission to reach out and let us know if the information we have provided is not sufficient for this step change approval. We are preparing more detailed information and evidence to provide to the Commission, if necessary.

9. Reference period

RP6	EDBs must record successive interruptions on the same basis they employed in responding to the s 53ZD notice.

Views/ Response:

TLC is of the view that if they are able, EDB's could move from non-recurring to recurring SAIFI recording, they should be able to do so, with an appropriate adjustment to the SAIFI limits. A small adjustment to TLC's limit would allow us to transfer to the SAIFI mechanism which we understand that the Commission prefers and would allow us to report consistently over time.

For example, TLC's metrics for RY2024 are detailed below and could be completed for previous years with TLC having five years of data available to evaluate.

Class	Non-repeat SAIFI	Repeat SAIFI	Difference
B	0.492	0.500	0.008
C	2.158	2.278	0.120

12. Revenue Path

R1.3	Apply a 90% "voluntary undercharging" limit (or an alternative in some cases).

Views/ Response:

The Commission's draft decision is to set the voluntary undercharging limit to 90% of forecast allowable revenue. We submit that the limit should be lowered to 80% to provide greater flexibility for EDBs to smooth revenue recovery according to the specific circumstances faced by consumers in their distribution region. This suggested change would be in the interests of consumers.

The Commission's reasoning for its choice of a 90% limit is that:

> *There is no evidence that the 90% undercharging limit under DPP3 is currently causing any detriment to suppliers or consumers; accordingly we have decided to retain it under DPP4. This is consistent with our decision to retain approaches from the DPP3 where they remain fit for purpose.*[1]

DPP4 provides a materially different context than DPP3, which means that observations on the undercharging limit for DPP3 have little relevance for DPP4. DPP3 commenced with a reduction in distribution revenue caps, whereas DPP4 will entail significant increases in allowable distribution revenue, even after smoothing by the Commission. The significant increases in allowable distribution revenue come at the same time as an increase in transmission grid charges – after smoothing, Transpower's allowable revenue increases are proposed to be 15.43% for each of the first two years, followed by 5% increases for three years.[2]

EDBs continue to evolve their pricing towards having a more cost-reflective structure in accordance with the Electricity Authority's pricing principles and expectations for pricing reform, which can also increase power bills for some customers.

All these changes coincide with a cost-of-living crisis for residential consumers and economic pressures affecting business consumers, which means that the likelihood of EDBs choosing to voluntarily undercharge in some periods to alleviate price impacts for consumers through further revenue smoothing is substantially higher than for DPP3.

We appreciate that the Commission's draft decisions on DPP4 and the RCP4 IPP include smoothing to reduce consumer bill impacts. In the case of TLC, our region has prominent levels of socioeconomic deprivation, which will affect the level of bill impact that can reasonably be placed on customers. As a consumer trust-owned lines company we are focussed on the impact that our price changes have on our customers.

Given that the DPP4 context is vastly different from DPP3, we consider that there is a strong justification for increasing the voluntary undercharging limit to avoid a situation where an EDB is incentivised to increase prices more sharply than it considers to be appropriate in the specific context of its region. Increasing the voluntary undercharging limit would be in the interests of consumers and would have no downside – the Commission's use of revenue smoothing limits guards against future price shocks. In other words, in circumstances where undercharging leads to a build-up of the wash-up account, the revenue-smoothing mechanism established in the IMs provides protection to consumers.

We note that TLC has not yet determined the extent of smoothing it will undertake and await the Commission's final determination before making that decision. As a result, we do not yet know what level of undercharging we may use. However, regardless of what degree of undercharging TLC and other EDBs

[1] Draft Decision Reasons Paper, F193.

[2] Commerce Commission (29 May 2024), Transpower's individual price-quality path for the regulatory control period commencing 1 April 2025 - Draft decision paper p. 13.

adopt, we consider it important that to have the sufficient flexibility and certainty to adopt further smoothing where it is needed without having to forgo revenue.