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Commerce Commission
Te Komihana Tauhokohoko

DPP4 RESET - FINANCEABILITY OF ELECTRICITY DISTRIBUTION SERVICES IN THE DEFAULT PRICE-QUALITY PATH ISSUES PAPER

1. Unison Networks Limited (**Unison**) appreciates that the Commission has consulted on this financeability paper, prior to the Draft DPP Decision. As we submitted on the IM Review and DPP Issues Paper,[1] including predictable and transparent financeability and equity issuance tests in the Input Methodologies is the most appropriate mechanism to mitigate the supplier and consumer risks inherent in multiple non-exempt EDBs experiencing financeability constraints on the back of an inadequate default price-path.

2. We have not repeated the detail of our previous submissions but highlight our key concern below that the Commission will not promote Part 4 to the benefit of consumers by a vague and unbalanced approach to financeability in the reset. The approach outlined in the financeability paper is not adequate.

3. Unison, alongside the 'Big 6' (largest non-exempt EDBs) strongly supports the Oxera report submitted today. That expert evidence is required for highly technical subject matter and is persuasive. The timeframe to respond to the financeability paper has been unreasonably short for a highly technical and critical component of the regime.

EDBs must be both able to invest and remain attractive to investors through DPP4

4. The Commission has otherwise acknowledged the risks of developing a default price-path that does not fairly fund EDBs in DPP4 at a crucial point in New Zealand's path to net-zero. Failing to test and rectify objectively measured financeability issues materially raises the risks of underinvestment and financial hardship of non-exempt EDBs in DPP4.

5. Unison also supports the ENA's submission evidencing the EDB perspective that this is a shared industry concern.

6. We acknowledge and are highly supportive of the Commission's consideration of an equity issuance test.

Under-recovery in DPP3 now impacts on incentives to invest in DPP4

7. Unison's experience of DPP3 has been similar to many of its peers, driven by: large customer and system growth requirements, high opex requirements, high inflation, and a 'low' price-path set in 2019.

[1] Referred to as a "Financeability cross check against the Regulatory Cost of Capital" in Unison's DPP submission.

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8. The lack of certainty the Commission has provided about what a financeability 'sense check' will measure and achieve, including its relevance to a CPP application does not promote outcomes consistent with s 52A, and embeds further uncertainty contrary to s 52R. There is also an inequity between the circumstances of a non-exempt and exempt EDB in the electricity lines market, given the financing constraints may be substantially reduced where the regulation is not constraining an EDBs potential revenue.

9. Irrespective of ownership structure (trust-owned or otherwise), investors and lenders rely on regulation being consistent with the regulatory framework. The purpose of a financeability test (based on a fairly defined notional firm) is to ensure that a notional firm has sufficient cashflow to fund the default price-path. Unison is not asking for a preferential price-path as a trust-owned EDB, but a fair and balanced outcome of the default price-path. Oxera's expert report additionally gives context about why this is good for the consumer and the risks of failing to predictably test and remedy deficiencies.

10. A 'sense check', as proposed in the paper provides no regulatory certainty and lacks no parameters to be meaningful to suppliers, customers, and stakeholders.

Restore incentives to invest through an objective measure

11. To promote Part 4, s 52A EDBs need genuine incentives to innovate and to invest, and to improve efficiency. Unison's IM submission detailed why we consider s 54Q must also be met, including avoiding disincentives to invest in energy efficiency and demand-side management. Maintaining whether regulated EDBs can continue to invest and are worth investing in, at a time of high growth, is additionally fundamental to Aotearoa's decarbonisation journey, which integrates an energy efficiency journey.[2]

12. Given the financial constraints that the regime has created through DPP3, it is important to this reset that consumers' long-term interests are promoted through an objective financeability test that leads to a predictable impact on non-exempt EDB's price-path to form a key part of restoring incentives to invest through the regulatory period.

Ngā mihi

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[2] The correct statutory definition of energy efficiency is: *"a change to energy use that results in an increase in net benefits per unit of energy"* as defined in the Energy Efficiency and Conservation Act 2000.