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Horizon Energy Distribution Limited (Horizon Networks) submission on DPP4 Issues Paper

1. Thank you for providing us the opportunity to make a submission on the *DPP4 Issues Paper*.
2. Horizon Networks is a small trust-owned Electricity Distribution Business (EDB) serving over 25,000 consumers in the Eastern Bay of Plenty region. As a trust-owned EDB, we have a strong consumer focus and seek to benefit both our Shareholder Trust Horizon and the communities we serve.

New Zealand's decarbonisation path is uncertain

3. We recognise that the default price patch (DPP) is designed to be a relatively low-cost way of setting price-quality paths for non-exempt EDBs.
4. To set a DPP for an individual EDB, the Commerce Commission needs to be certain that the revenue for each EDB is based on the necessary and economically efficient costs for the EDB to maintain its network for current and future consumers.
5. Historically this has been achieved by applying certain parameters to historic inputs as an indicator of future expenditure.
6. However, the future EDBs face in DPP4 and beyond is vastly different from what was forecast for DPP3. The level of uncertainty and pace of change is going to strain existing assets and make it necessary to upgrade New Zealand's electricity system.
7. While decarbonisation and climate change will impact EDBs at scale and at pace, the timing and scope of these changes remains uncertain. Horizon Networks understands the Commerce Commission does not intend to incorporate uncertain expenditure into its DPP4 setting, instead relying on uncertainty mechanisms such as reopeners and CPPs to manage this uncertainty. This approach will constrain EDB's ability to support New Zealand's decarbonisation ambitions.

DPP4 is a constraint on investment

8. DPP4 will set limits on the revenue EDBs can recover within the regulatory period. This revenue limit directly impacts the amount of investment EDBs can apply, including to support New Zealand's decarbonisation ambitions.
9. This feature of the DPP is necessary to protect consumers from unnecessary investment. However, excessively constraining investment harms consumers and New Zealand by preventing EDBs from planning and investing when and where there is need.
10. A key output of this planning process is the asset management plan (AMP).

Asset Management Plans are a risk-based forecast of necessary expenditure, that takes into account DPP settings

11. As part of planning to meet future needs, EDBs produce AMPs which include schedules that set out the forecast capital and operational expenditure over the next 10 years.
12. For Horizon Networks, the AMP is a carefully considered, risk-based forecast that takes into account consumer's future needs and the regulatory settings under which the investment can be made.
13. The AMP forecast accounts for uncertainty in future expenditure needs and considers:

- **What we need to spend to continue supply with no material deterioration of quality**

A member of the Horizon Energy Group

- What we can afford to spend (financeability).
- When we need to spend it (timing)
- What level of spending the regulatory settings will provide revenue for

14. As a result, the AMP forecasts we provide are not 'aspirational', but rather the minimum forecast expenditure to meet risk-based estimates for asset renewal and growth, while accommodating the anticipated decarbonisation and climate change resilience needs of the region.

Funding EDBs for certainty leads to 'short-term thinking'

15. Historically EDBs have been funded for certainty. If there is capital expenditure that is needed within the regulatory period then it can be considered as part of the DPP reset process.
16. This approach incentivises 'short-term thinking'. Likely but not certain expenditure is excluded from allowances and left to the reopener process.
17. This is a problem as it does not allow EDBs to fund development in thinking and possible solutions to support this future state until there is certainty.

A reliance on reopeners avoids solving New Zealand's decarbonisation and climate change challenges until it's too late

18. Horizon Networks understands that the Commerce Commission intends to address uncertainty in the timing and magnitude of expenditure by relying on uncertainty mechanisms such as reopeners.
19. This is an issue as it can defer addressing the problem until it is already too late. EDBs will only be funded to meet consumer needs after the need has eventuated. The reopener process risks delaying investment until it is too late, and consumers are forced to shift to alternative energy sources to meet their needs because the network is not ready for them.

Information and technology can help manage the risks but requires additional funding

20. Access to LV network information (via smart meter data), technological solutions such as 'dynamic operating envelopes' and flexibility can help EDBs manage the network and future expenditure needs in new ways.
21. To get these in place, EDBs will need to be funded ahead of need. This means the costs will be incurred now but the benefits will not be realised for several years once this new information and solutions can be incorporated into expenditure forecasts.

The base, step, trend approach to forecasting OPEX penalises large, foreseen and necessary expenditure

22. While Horizon Networks recognises that the base-step-trend approach to forecasting OPEX is currently used under DPP3 and is the proposed approach under DPP4, this approach does not recognise the 'lumpy' nature of some OPEX projects.
23. Horizon Networks expects to initiate a major, necessary non-network OPEX project in FY25. This will greatly increase our OPEX in 2025 and affect our OPEX going forward. Unless FY25 is set as the 'base' year, under the base-step-trend approach, Horizon Networks will be penalised as the necessary expenditure falls outside of the base year and is not an EDB sector step change or part of a sector-wide trend.
24. To incentivise EDBs to plan OPEX when it is needed, the approach to forecasting OPEX needs to consider future step changes (including temporary step changes) that are specific to that EDB. This will ensure EDBs can schedule major, foreseen, and necessary changes to OPEX when they are needed.

In conclusion, the Commerce Commission needs to ensure DPP4 settings support electrification, and reopeners remain a rarely used tool

25. EDBs need appropriate funding to support appropriate investment to help achieve New Zealand's electrification goals but relying on 'just in time' reopeners for uncertain expenditure risks being too little, too late.
26. It is critical for current and future consumers that the Commerce Commission get these settings right and that EDBs are not punished for meeting New Zealand's electrification needs.

Yours Sincerely

Jonathon Staite
Regulatory Manager


HORIZON ENERGY DISTRIBUTION LIMITED