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19 December 2023

Ben Woodham
Electricity Distribution Manager
Infrastructure Branch
Commerce Commission
PO Box 2351
Wellington 6140

Via email: infrastructure.regulation@comcom.govt.nz

Issues paper: Default price-quality paths for electricity distribution businesses from 1 April 2025

Introduction
The Lines Company Limited (TLC) thanks the Commerce Commission (Commission) for the opportunity to submit on the Commission's *Issues paper: Default price-quality paths for electricity distribution businesses from 1 April 2025*. The Commission seeks views on specific issues, and on any issues that may have been missed, to assist the Commission in making the DPP4 Draft decision anticipated May 2024.

TLC's submission
TLC's answers to the Commission's questions are in ***TLC Attachment A, the Commission's Summary of consultation questions from Issues paper***. We have highlighted important issues for TLC and our community in this document. TLC is also a party to, and supports, the Electricity Networks Aotearoa (ENA) submission.

Summary
We acknowledge the Commission's consultation, engagement, consideration and work to date, and we look forward to the Commission's DPP4 Draft decision. If the Commission has any queries, don't hesitate to get in touch with Craig G. Donaldson, Pricing & Regulatory Specialist, at [redacted]

Yours sincerely

Kyla Johansen
Pricing, Regulatory and Commercial Manager
Compliance And Revenue Assurance

TLC Attachment A: Commission's Summary of consultation questions from Issues paper

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

Summary of consultation questions from Issues paper

Date of publication: 2 November 2023

Purpose of this document

1. This document repeats the 29 consultation questions outlined in the public consultation document titled "Default price-quality paths for electricity distribution businesses from 1 April 2025 – Issues paper" published on 2 November 2023.

2. This document provides a template for submitters to use, if they wish, to prepare their submission. Submissions on this Issues paper are due Friday, 15 December 2023. Cross-submission are due on Friday, 26 January 2024.

Summary of consultation questions

Number	Request for comment or responses on initial views	Page
Chapter 2 – Context and challenges		
1	**We are interested in your views on whether we have properly understood the changing industry context as it relates to the DPP4 reset.** Have we properly understood and represented the changing industry context and are there other implications for the DPP4 you believe we should consider?	18
1 Response: TLC believes that the Commission has a reasonable grasp of the issues for our industry and customers. TLC is a smaller distributor by ICP count but has a large area of New Zealand to provide quality services to our community (many of whom are considered to be vulnerable), which causes unique challenges. Generally, and in short: • ***Decarbonisation*** for TLC is not just electrification but also carbon offsetting done by more carbon forestry introduced on our network with a major increase in vegetation risks. • ***Resilience*** expenditure plans are associated with where infrastructure was built and also designed at the time e.g., substations in low-lying areas exposed to floods, lines close to the coast exposed to sea level rise, lines on slopes or hills exposed to severe weather and landslides and lines that were built through farmlands that are now through carbon forests. • ***Innovative future energy solutions*** may result in a change of expenditure classification between opex and capex. The current framework has inherent capex bias. • ***Customer affordability and price shocks*** due to changes in WACC, inflationary environment, investment required for load growth, decarbonisation and resilience.		

Number	Request for comment or responses on initial views	Page
Chapter 3 – Forecasting capital expenditure		
2	**We are proposing to adapt our approach to capex for DPP4 based on feedback from EDBs, that past expenditure is not a good starting point for considering future spend.** Do you have any particular concerns or issues with our proposed approach? If so, how could these concerns or issues be resolved? What alternative data and external sources should we use to support our consideration of capex forecasts, beyond the information in 2023 Asset Management Plans (AMPs), responses to section 53ZD notices and 2024 AMPs, and why should these be used?	27
2 Response: TLC believes that the Commission's proposed approach to capex is the correct one, and supports the Commission's sources of data, particularly providing us with the opportunity to detail information in the section 53ZD notices. TLC is available to take any queries from the Commission from information in the AMP and section 53ZD notices. Of course, consideration of other external market influencers such as Transpower costs, inflation, commodity prices, and government policy is crucial, too. AMPs and section 53ZD notices are the correct sources as TLC is in a better position to understand our community's requirements, particularly as we are proudly community-owned.		
3	**We are proposing to apply the capital goods price index to forecast capex allocations.** Is there a more appropriate index which could be applied; and, if so, why?	27
3 Response: TLC is comfortable with the Commission applying the capital goods price index to forecast capex allocations.		

Number	Request for comment or responses on initial views	Page
4	**We have concerns about the challenges in delivering increased programmes of work given current labour market, supply chain and economic challenges in New Zealand.** How should our capex forecast take into account potential sector-wide deliverability constraints?	27

4 Response:

TLC agrees with the concerns of the current labour market and the limited number of contracting resources available. TLC has factored these constraints into our forecasts and has been proactive in looking further forward and planning our work programmes, recognising that it is important to lock contractor resources in as early as possible.

Also, the progressive relaxation of COVID-19-related border restrictions from early 2022, as well as changes to immigration settings, has helped in the record net migration gain of 110,000 in the August 2023 year[1]. Hopefully, this will help address challenges in the labour market.

In this time of uncertainty, distributors should be enabled with greater flexibility without penalties – if quality targets are met, commissioned capex delivery should have less impact on performance evaluation and future penalties.

1 https://www.stats.govt.nz/news/net-migration-exceeds-100000/

Number	Request for comment or responses on initial views	Page
5	**We will be using the s 53ZD notice to collect information about how EDBs have reflected resilience in their expenditure forecasts.** What engagement have EDBs had with consumers about resilience expectations, especially as it relates to significant step changes in forecast expenditure? What other considerations should we factor into our analysis of the resilience expenditure information collected from the s 53ZD notice and/or what is unlikely to be visible in the forecasts that we should consider?	27
5 Response: TLC engages with their customers regularly as we are community-owned. Our engagement includes customer surveys, focus groups and other community initiatives. Customers are not the only stakeholders though. We also engage with councils, government and where appropriate Iwi. Initiatives addressing resilience include both HILP and more traditional security of supply improvements. The Security of Supply elements included in the AMP should not be disregarded. Many resilience project deliveries are dependent on external parties and factors like consent approvals, council easements, Iwi co-governance etc. TLC's resilience was tested in Cyclone Gabrielle due to out-of-zone trees in carbon forests. Resilience is also not just a TLC problem as it includes, communication, roads and transport and as such we form part of a much bigger picture.		
6	**We would like to understand how potential changes in capital contributions policies could be accommodated in DPP4.** How could changes to capital contributions policies, either in advance of or within the regulatory period, be accommodated within our capex forecasts for DPP4?	27
6 Response: TLC is in the process of updating our capital contributions policy, with publication expected alongside our other regulatory documents on 1 April 2024. TLC's new policy will continue to encourage new connections and support decarbonisation but will likely continue to require capital contributions that require significant network augmentation to ensure that full costs are not borne by those across our community. Any capital contribution policy interventions that are significantly different to our proposed policy will need to be assessed for materiality which could impact reopeners and have IRIS implications. This would need to be considered if introduced in DPP4.		

Number	Request for comment or responses on initial views	Page
7	**We are interested to understand if EDBs are assessing investments driven by expected pace of change which may not be consistent with choices otherwise made under a least cost lifecycle basis.** Are there specific investment decisions being considered due to concerns on delivering increased scale of investment in limited time which are not consistent with a least cost lifecycle basis assessment; for example, areas where EDBs are intending to build well in advance of forecast need or for demand or generation that are only speculative? On what basis are these investments being assessed?	27
7 Response: TLC advocates greater flexibility to enable changes to investment planning closer to real-time. TLC is concerned about affordability for our customers and cognisant of investing too early – we need the ability to adjust easily to changes within a DPP period, if necessary.		
Chapter 3 – Forecasting operating expenditure		
8	**We are considering updating our approach to forecasting opex input price escalation to better reflect the mix of inputs EDBs face.** Do you have a view on another index, or weighted mix of indices, which would improve the quality of opex forecasting compared to our current approach? (Using a 60/40 mix of percent changes in Labour Cost Index (LCI) all-industries and Producers Price Index (PPI) input indices.) If so, what evidence supports this view?	34
8 Response: TLC is comfortable with the Commission's approach but the same approach should be applied to IRIS.		

<table>
<tr><th>Number</th><th>Request for comment or responses on initial views</th><th>Page</th></tr>
<tr><td>9</td><td>We are considering revising our approach to scale growth trend factors, to better reflect EDBs increasing focus on investing to meet growth and renewal needs.

Do you support our emerging view that including forecast capex as a driver of non-network opex could improve opex forecasts, and that this conclusion makes sense in terms of the way EDBs run their businesses?
Are there alternative drivers that we should consider, and what evidence is there that they can meaningfully predict EDB scale growth?</td><td>34</td></tr>
<tr><td colspan="3">9 Response:

TLC refers to the ENA’s response to this question but adds that TLC agrees with additional opex likely to be in the form of software, cyber security, insurance, labour, systems and tools, enhanced and more efficient processes required, more data handling etc.</td></tr>
<tr><td>10</td><td>EDBs have identified that insurance costs have been increasing at a greater rate than other costs they face.

What evidence do you have about how these costs are likely to evolve over time?

Is the option of trending insurance opex forward using a separate cost escalator workable? How could incentives on EDBs to make risk management decisions be maintained?</td><td>34</td></tr>
<tr><td colspan="3">10 Response:

TLC refers to the ENA’s response to this question. Some opex items like insurance do not follow a CPI remit.</td></tr>
</table>

Number	Request for comment or responses on initial views	Page
11	**Given the possibility of a greater need for step-changes in opex in a context of industry transition, we have clarified further how we are thinking of applying the step-change criteria and the supporting evidence we expect.** Do you consider the expanded descriptions of the step-change criteria provide sufficient clarity about the types of step-changes we consider meet the Part 4 purpose?	34

11 Response:

TLC largely refers to the ENA's response to this question and reiterates that step changes should be measured from the DPP3 and DPP4 allowances rather than changes between the 2023 AMP and 2024 AMP.

It is unclear how step changes will be dealt with but there are many for TLC which include:

- **Routine and corrective maintenance and inspection**
- **System operations and network support**
- **SaaS solutions**
- **Data management as systems are updated**
- **Insurance**
- **Cyber security**
- **Regulatory changes**
- **The overall impact of high inflation**

Number	Request for comment or responses on initial views	Page
Chapter 3 – Quality standards		
12	**Our initial view is to maintain the principle of no material deterioration and set quality standards on a basis consistent with that established in DPP3.** Do you agree with our proposed approach of maintaining the principle of no material deterioration and setting the quality standards on a basis consistent with DPP3? With regard to the quality standards, are the existing reporting obligations appropriate?	38
12 Response: There are many pressures on network performance outside of TLC's control that should be factored into the performance criteria. TLC's view is that "no material deterioration" needs to be considered in the context of what TLC has control over but allows for factors outside of our control when setting quality standards. An example of this is an extreme weather year and network impacted by out-of-zone trees. Factors such as carbon farming and more forestry being introduced without any changes in the tree regulations are a concern. Quality is not just impacted by deterioration but by other external factors which are not within our control. Our planned work programme is significant and is likely to increase planned outages compared to historic levels.		
13	**Our initial view is to maintain the DPP3 settings of a 10-year reference period updated for the most relevant information and normalisation approach for major events.** Do you think that we should maintain a 10-year reference period updated for the most relevant information and normalise major events on the same basis as DPP3?	38
13 Response: TLC supports maintaining a 10-year reference period. It is noted that for the last couple of years, there has been an increase in extreme weather events. The Commission may need to assess what this means for the next DPP period.		

Number	Request for comment or responses on initial views	Page
14	**Our initial view is step changes in reliability, if appropriate, may be accommodated through setting of values or revisions to definitions.** Are there identifiable step changes to reliability parameters for quality standards to manage operational or situational changes outside the control of the distributor compared to historical periods? What value and challenges do you see with different approaches to addressing inconsistencies in the recording of interruptions, the 'multi-count' issue, using either a proxy allocation basis or requiring a recast dataset? Are there alternative approaches which may appropriately address the issue?	38
14 Response: Lines through forestry blocks and an increase in carbon farming blocks are major concerns and an "outside the control" issue for TLC. TLC would prefer to transition to, and adopt, the multi-count approach for SAIFI – provided the quality standards are adjusted accordingly. We can recast our more recent datasets i.e. DPP3 from 1 April 2020.		
15	**Our initial view is to not introduce new additional quality of service measures.** Are there any other quality of service measures beyond those currently required within DPP3 that we should consider introducing, and why?	38
15 Response: TLC is comfortable with this approach. The current measures of SAIDI and SAIFI are appropriate for monitoring the quality of service in the current climate.		
Chapter 3 – Other issues		
16	**Aurora Energy is scheduled to rejoin the DPP from 1 April 2026.** Do you agree with how we propose to transition Aurora Energy to the DPP in 2026?	40
16 Response: TLC is comfortable with the Commission's proposal.		

Number	Request for comment or responses on initial views	Page
17	**Section 53M(5) allows us to reduce the regulatory period if this would better meet the purposes of Part 4 of the Act. We are considering whether we should reduce the regulatory period from five to four years.** What particular challenges do you perceive may arise from shortening the regulatory period? What are the potential benefits to consumers from maintaining or shortening the length of the regulatory period?	40
17 Response: TLC does not support a reduction in the regulatory period. The costs and resources required outweigh the benefits and information is available (through Information Disclosure and the Commission's AMP reviews), and consideration could be given for enhancement with regulatory flexibility. The IM changes to inflation will assist with some of the issues that have arisen in DPP3, and TLC submits that if re-openers are simpler and cost-effective, this mechanism could be utilised where material changes arise in a cost-effective and timely manner.		
18	**The DPP sets annual deadlines by which suppliers must make Customised Price-Quality Path (CPP) applications to enter into effect the following year.** Do you support retaining a similar approach to setting CPP application windows as was undertaken for DPP3?	41
18 Response: TLC acknowledges the resources required for CPP applications. TLC reserves comment dependent upon the Commission's decision on the reduction of the regulatory period.		
19	**The current IMs provide for a discretionary shortening of asset lives.** Do you have views on the framework for assessing accelerated depreciation applications?	41
19 Response: TLC is comfortable with the existing framework.		

Number	Request for comment or responses on initial views	Page
Chapter 4 – Quality incentives		
20	**Our initial view for DPP4 is to retain revenue-linked quality incentives for both planned and unplanned SAIDI, with targets, caps, collars, incentive rate and revenue at risk set on a consistent basis with DPP3.** Are EDBs considering the quality incentive scheme (QIS) in their investment decisions? Do you consider the proposed settings are appropriate for the QIS, including whether the incentive rate is driving appropriate outcomes with regards to consumer quality expectations?	45
20 Response: TLC considers the QIS when planning works and preparing for unplanned outages but this is only considered for significant events. Where the cost may outweigh the benefits. As such TLC views the QIS as achieving the outcomes for customers.		
21	**Caution around treatment of non-performance of less proven solutions may create a reticence by EDBs to implement these types of solutions and result in a focus on more proven established technologies, typically, capex investments. Our intention is that the compliance with the quality standards and penalties under the QIS do not act as a potential impediment to innovation.** How should we account for non-performance of non-network solutions (regulatory sandboxing)?	46
21 Response: TLC refers to the ENA's response to this question and agrees that a new outage category should be established and these outages should be excluded from the QIS and quality compliance assessments.		

Number	Request for comment or responses on initial views	Page
Chapter 4 Innovation		
22	**The regime's baseline incentives may be insufficient to support innovation, such that we consider it is appropriate to have an innovation (and/or non-traditional solutions) incentive scheme.** Do you agree with our understanding of the regime's baseline incentives to support innovation, and the need for an innovation and/or non-traditional solutions scheme? Would you be interested in participating in a targeted workshop, and if so, are there any topics you consider should be covered?	47
22 Response: TLC supports incentives for innovative solutions but the current scheme is not fit for purpose. TLC is interested in participating in a targeted workshop to enable further collaboration and learning for the long-term benefit of consumers. Topics we would like covered include pricing and reliability for non-network solutions.		
23	**We are interested in feedback on our initial thinking about how to design an incentive scheme to encourage innovation and/or non-traditional solutions in DPP4.** What are your views on the key principles (see **Attachment I**)? Are they effective as the basis of an innovation and/or non-traditional solutions scheme? Are there others you think may be suitable? What are your views on the potential scheme design characteristics? Are they effective as the basis of an innovation and/or non-traditional solutions scheme? Are there others you think may be suitable? How could these principles and characteristics be best applied in designing a potential scheme? We would also welcome submissions with examples of overseas schemes/characteristics that you consider appropriate for a DPP.	47
23 Response: TLC refers to the ENA's response to this question.		

Number	Request for comment or responses on initial views	Page
Energy efficiency, demand-side management and reduction of energy losses		
24	**Our initial view is that a specific demand-side management and energy efficiency scheme is not required for DPP4.** Is there a basis for strengthening the incentives for energy efficiency and demand-side management initiatives?	49
24 Response: TLC refers to the ENA's response to this question.		
25	**We are not proposing to implement a QIS for line losses. We believe EDBs improved visibility of low voltage performance and improvements to the energy efficiency of distribution transformers should drive improvements in DPP4 without additional explicit incentives.** Do you agree with our approach to not introduce a specific QIS related to reducing energy losses?	49
25 Response: We agree with the Commission's approach: a QIS for line losses would be cumbersome to measure objectively and for minimal benefit.		
Chapter 5 – Setting revenue allowances		
26	**We are proposing to retain our approach of setting a 'default' X-factor of 0% (before considering price shocks or supplier financial hardship).** We are interested in your views on whether this approach (where long-run changes in sector productivity are accounted for in our building blocks analysis) remains appropriate.	54
26 Response: TLC refers to the ENA's response to this question.		

Number	Request for comment or responses on initial views	Page
27	**Our emerging view is to assess price shocks for consumers using the real change in aggregate distribution revenue from year-to-year, with a particular focus on the change between regulatory periods.** Do you agree with this approach? If not, are there other alternatives we should consider? When applying this (or any other) analysis, what factors should we consider in determining whether a price change amounts to a price shock?	54
27 Response: TLC is very concerned about price shocks and affordability for our customers, but as custodians of our community's electricity infrastructure, we also need to consider the long-term benefit for our community. We need regulatory certainty and flexibility which will allow us to plan long-term and prudently invest in our network to ensure the security of supply and quality of supply. TLC agrees with the ENA's view that a blanket 10% cap on revenues is not sustainable with costs increasing and variances between forecast and actual CPI creating volatility. The revenue cap should be adjusted for inflation and volumes delivered at the time of price setting. We highlight that the movement for DPP2 to DPP3 saw TLC have a reduction in net allowable revenue of approximately 15% from 2019/2020 to 2020/2021[2], with most other distributors also having decreases.		
28	**Our emerging view is that financial hardship will be 'undue' only where it is to such an extent that it is inconsistent with the long-term benefit of consumers.** Do you agree with this approach? If not, are there other alternatives we should consider? When applying this (or any other) analysis, what factors should we consider in determining whether a supplier faces undue financial hardship?	54
28 Response: TLC refers to the ENA's response to this question.		

[2] https://comcom.govt.nz/_data/assets/pdf_file/0020/191810/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2020-Final-decision-Reasons-paper-27-November-2019.PDF, Figure X9

Number	Request for comment or responses on initial views	Page
Chapter 5 – Consumer bill impacts		
29	**Previously we have forecasted indicative consumer bill impacts from information disclosed by EDBs. We are interested in understanding what other information may help refine our approach.** What models or data inputs could be provided by EDBs which would improve our approach to modelling consumer bill impact?	58

29 Response:

The publication of headline numbers, in our view, is not helpful and can be misleading but we appreciate a comparison is needed.

TLC models bill impacts on every customer's ICP, and we are refreshing our pricing methodology for RY2024 and outputs from this modelling will be included. We are open to the Commission seeking consumer bill impact information directly from us and including details in future documents published by the Commission.

Individual customers can and do experience different bill impacts for various reasons e.g., the continued removal of Low Fixed Charge regulations, distributors aligning their pricing to the Electricity Authority's (Authority) pricing principles, the potential reform of Part 6 of the Code, retailer pricing strategies, the Government's winter energy payment scheme, etc.

We are focused on our pricing strategy which includes aligning our prices with costs and reflecting the Authority's Pricing Principles, but fundamentally considering affordability, energy hardship, the health and well-being our of customers, and supporting flexibility, innovation, and decarbonisation.

It is noted that what we do with our pricing does not always reflect in a customer's bill due to the way retailer pricing works.

TLC would like to see how the whole electricity industry could work together to ensure the key messages for the industry **are communicated well.**