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Ben Woodham
Manager, Electricity Distribution
Commerce Commission
44 The Terrace
Wellington, 6140

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

Horizon Energy Distribution Limited (Horizon Networks) submission on Default price-quality paths for electricity distribution businesses from 1 April 2025 process paper

1. Thank you for providing us the opportunity to make a submission on the *Default price-quality paths for electricity distribution businesses from 1 April 2025 process 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.
3. We appreciate the opportunity to provide feedback on the process paper and on the specific process considerations.
4. In addition to the points and recommendations raised in this submission, Horizon Networks wishes to emphasise the following:
 - Preliminary financial models should be made available in 2023.
 - Education is an essential part of the DPP process.
 - Four weeks may not be sufficient time to provide a robust submission on the issues paper.
 - Within-period flexibility is needed to mitigate inaccuracies caused by uncertainty.

Preliminary financial models should be made available during 2023

5. The process paper notes that the Commerce Commission is planning on using a similar suite of financial models for DPP4 to what was used for DPP3.¹
6. EDBs use these financial models to understand the impact of the DPP reset on the business and inform investment decisions. Inevitably there is staff churn within EDBs between DPP reset periods. This results in knowledge gaps regarding the Commerce Commission's financial models, particularly for smaller EDBs where resourcing is limited.
7. Horizon Networks is concerned that by withholding the release of the financial models until May 2024, when the draft determination is released the Commerce Commission is limiting the time EDBs have available to understand the financial models. This limits the capacity of EDBs to participate in the consultation process effectively, given much of the time is expended on understanding the financial models rather than the draft decisions.
8. While it is noted the Commerce Commission intends to use similar financial models for DPP4 to what was used for DPP3, it would be prudent to release these financial models during 2023 to give EDBs time to understand the financial models with any DPP4-specific model changes ahead of the draft determination.
9. **Horizon Networks Recommends:** The Commerce Commission provides the preliminary financial models in 2023, with an update to the financial models being provided alongside the DPP4 draft determination in May 2024.

¹ Paragraph 25 in the [Default price-quality paths for electricity distribution businesses from 1 April 2025 process paper](#)

Education is an essential part of the DPP process

10. Given the inevitable staff churn within EDBs in between the DPP reset periods not all EDB staff will be familiar with the DPP3 financial models or processes. EDBs engagement within the draft determination consultation process will be enhanced by providing workshops to ensure EDBs understand and can use the financial models prior to the release of the draft determination.
11. **Horizon Networks Recommends:** The Commerce Commission provides workshops to walk through the financial models to ensure EDB staff understand the financial models prior to the release of the draft determination.

Four weeks may not be sufficient time to provide a robust submission on the issues paper

12. The process paper proposes a consultation period of four weeks for the DPP4 issues paper.
13. Horizon Networks is concerned that four weeks will be insufficient time to work through the issues paper and provide a useful submission.
14. As the DPP sets non-exempt EDBs revenue and incentives for the next five years, the DPP submissions have a high level of engagement and interest at the operational, management, and board level.
15. This level of engagement is an absolute must to ensure EDBs are responding appropriately to the issues paper and requires additional time to coordinate and clearly articulate within the business. A consultation period of four weeks will cut into the time available to develop and engage across the business to provide a useful submission.
16. **Horizon Networks Recommends:** The Commerce Commission provide a six-week submission period for the DPP4 issues paper.

Within-period flexibility is needed to mitigate inaccuracies caused by uncertainty

17. The process paper notes that the regime relies on forecasting and incentivising efficient expenditure to ensure that customers get value for money.²
18. Forecasting and incentivising efficient expenditure is difficult under a steady state, however due to uncertainty around the timing and cost of future expenditure needs such as decarbonisation, electrification and climate change any forecasts used for price setting are very likely to be inaccurate before the end of the DPP period.
19. The difficulties in forecasting expenditure can be seen through the data provided in historic AMPs.³ For example the reported EDB sector expenditure for 2022 was 50% higher than what the EDB sector had been forecast in 2015. This highlights the impact of uncertainty on long-term forecast accuracy. It is likely that any forecast provided in 2023 for FY30 will face a similar or higher level of inaccuracy due to uncertainty in what New Zealand's actual energy needs will be in 2030.
20. Additionally, not all EDBs have updated their approach to AMP forecasting at the same time, creating a disparity that could lead to uneven outcomes for networks and the consumers they serve.
21. The process paper acknowledges the need to adapt the approach for forecasting, and the risks associated with relying on a single source for expenditure forecasts, such as supplier-produced expenditure forecasts.
22. **Horizon Networks Recommends:** To address concerns around the accuracy of forecasts, the Commerce Commission should utilise a combination of EDB and wider government expertise regarding the need for efficient expenditure, such as from the Climate Change Commission and the Electricity Authority.
23. **Horizon Networks Recommends:** To address concerns regarding uncertainties stemming from the timing and scale of expenditure needed, improved within-period adjustment tools such as timely reopeners and contingent allowances should be a priority for the DPP4 review.

² Paragraph 16.3 in the [Default price-quality paths for electricity distribution businesses from 1 April 2025 process paper](#)

³ <https://comcom.govt.nz/regulated-industries/electricity-lines/electricity-distributor-performance-and-data/information-disclosed-by-electricity-distributors>

Horizon Networks Response to specific process considerations for feedback

24. The Commerce Commission has signalled that it is interested in feedback on the following:

Review of the 2023 asset management plans

25. The Commerce Commission proposes to engage an external expert to help review the 2023 AMPs, and the Commerce Commission will engage with EDBs to support desktop analysis.
26. Horizon Networks supports the use of external experts where necessary and engagement with EDBs regarding the AMP.
27. The forecasts within the Horizon Networks 2023 AMP are likely to change as we undertake more robust analysis to consider the long-term impacts of electrification, decarbonisation, and climate change on future expenditure.
28. This does not mean that the 2023 AMP is inaccurate, only that the 2024 AMP (and 2025 AMP and beyond) will have better information from which to base expenditure forecasts. While the analysis is not yet complete, it is possible these updated forecasts will require a step change in expenditure to meet New Zealand's electrification and resilience needs.
29. This enhancement to forecasts over time will be prevalent throughout the industry. Care needs to be taken to ensure appropriate mechanisms are in place to provide appropriate returns that reflect the significant investment requirements within the industry over the coming decades.
30. **Horizon Networks Recommends:** The Commerce Commission allows for efficient investment under a realistic range of investment scenarios and gives EDBs the ability to flex expenditure within the DPP as consumers needs and expectations change.

Disclosure of 2024 expenditure forecasting

31. The Commerce Commission has signalled the use of information from the 2023 AMPs for the draft decisions and the final decisions will have regard to information in the 2024 AMP. This is consistent to the approach taken for the DPP3 reset.
32. The Commerce Commission notes that several EDBs have indicated their 2024 AMPs may have significantly increased expenditure to 2023 AMPs.
33. Horizon Networks expects to have refined the expenditure forecast in the 2024 AMP. The 2024 AMP forecasts will be informed by studies currently underway to understand the impact of decarbonisation, electrification and climate change on the Horizon Network.
34. The Commerce Commission also intends to seek specific information from each EDB about the expected level of change between the 2023 and 2024 AMP. This request will be made under 53ZD of the Act and occur in late 2023.
35. The Commerce Commission expects EDBs to complete those components of the AMP in an advanced timeframe and is seeking feedback on the practicalities of this approach.
36. Horizon Networks is concerned that the Commerce Commission does not understand the complexity and timing of the AMP development process which means any information provided in late 2023 will be subject to change.
37. As illustrated in our AMP, Horizon Networks AMP process goes through a comprehensive process to:
 - Identify future investment needs from a wide range of drivers including climate change, decarbonisation, fleet management, resilience, and growth.
 - Identify and analyse options to meet those needs.
 - Develop a 'raw' proposal of what work needs to be done, and when.
38. The 'raw' proposal then undergoes a validation process to ensure the proposed plan considers various constraints including risk, resource, regulatory, price shock, and expenditure fluctuations between years.
39. Any expenditure forecasts provided in late 2023 will likely still be going through the validation process and be subject to change. Horizon Networks can provide draft information to the Commerce Commission to support the DPP4 reset as early as December 2023 however it needs to be acknowledged that this is draft information, and the finalised forecasts will not be available until the 2024 AMP is publicly disclosed in March 2024.

40. **Horizon Networks Recommends:** That any request for early AMP forecasts acknowledge that the information is still subject to change and may not be the same as what is provided in March 2024 as part of the 2024 AMP, and that the publicly disclosed 2024 AMPs are used to inform the final decisions.

Stakeholder workshops

41. The Commerce Commission is proposing to hold stakeholder workshops, such as a DPP knowledge sharing session (July 2023), specific issues and topics workshops (October 2023 – April 2024) and topic finalisation workshops (June 2024 – October 2024).
42. The Commerce Commission is interested in knowing if these are useful, and if there are any other topics that the Commerce Commission should consider.
43. Not all EDB staff will be familiar with the DPP3 financial models or processes. EDB engagement and understanding of the impact of DPP4 will be enhanced by providing workshops to help EDBs understand and use the financial models.
44. **Horizon Networks Recommends:** The Commerce Commission provides workshops to walk through the financial models to ensure EDB staff understand the financial models prior to the release of the draft determination and further workshops once the draft determination is released.

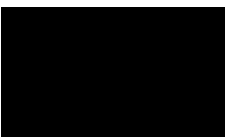
DPP regulatory period

45. The Commerce Commission has requested feedback on if a shorter regulatory period (such as four years) could help address forecasting uncertainty.
46. Horizon Networks is concerned that a four-year DPP period will result in the DPP reset process being initiated at the halfway point of the DPP period. As a result, there would be limited opportunity to learn from the current DPP to inform the future DPP. We consider a five-year period the minimum amount of time necessary to meaningfully assess the current DPP as an input into future changes.
47. The industry and Commerce Commission also face significant costs from the DPP reset process. Increasing the frequency of the DPP reset process would lead to higher annual costs which are ultimately borne by consumers.
48. **Horizon Networks Recommends:** The Commerce Commission retains the current five-year DPP period.

In conclusion Horizon Networks supports the proposed DPP process and notes the need for within-period flexibility and having an educated regulated party base

49. Horizon Networks supports the proposed DPP process, noting the need for increased flexibility to help manage an increasingly uncertain future.
50. While the DPP is a 'one size fits all' approach to price/quality regulation, each EDBs individual circumstance is unique. There needs to be flexibility built into the DPP to ensure that efficient and timely investment can occur, even if it was not identified during the DPP process.
51. Positive consumer outcomes are achieved when EDBs respond to incentives. Poorly understood incentives and financial models will result in a poor response, and poor consumer outcomes. To mitigate the risk of a poor response, the Commerce Commission should ensure that financial models are made available as early as possible and EDBs are educated to be able to use these tools to appropriately engage within the Commerce Commission's DPP4 process.

Yours Sincerely



Jonathon Staite
Regulatory Manager

HORIZON ENERGY DISTRIBUTION LIMITED