Unison Networks Limited (Unison): Cross submission on the Draft Input Methodologies Decisions 2023, 9 August 2023

The purpose of this cross-submission is to explain Unison's support or opposition for the position of submitters. It does not repeat its position on issues, as explained in its 19 July 2023 submission, and supports the reasoning provided by submitters at the relevant references. It references some areas of alignment with Unison's earlier submisson.

Submitter	Issue and Unison's position
	Financing and incentivising efficient expenditure during the energy transition
	Revenue and cost of debt wash ups
ENA	**Support** [5.1] Utility of a numerical worked example of each element of the revenue path limits and wash-up, and the PQ clauses which will give effects, along with the IM clauses, to the revenue cap. [5.6] In principle support wash-up account but it is not possible to get a full understanding from the IMs. [5.7] Support change of timing of CPI wash up.
Vector	**Support** [172] Inflation wash up to revenue on the first year of the regulatory period. [175] – [179] Adjust annual revenue wash-up to reflect debt servicing costs being fixed in nominal terms. *As below, Unison supports the removal of RAB indexation and subsequently beneficial simplification.*
Wellington Electricity	**Support** [Pg 7] Additional workstreams required alongside DPP4 reset. Some of the Draft IM Decisions are new and complex and we are still uncertain about their impact on cashflows, cost saving incentives and other regulatory features. [Pg 23, 3.3.2.1] We recommend another workstream in parallel to the DPP4 reset to test the impact on cashflows. [Pg 50 – 52, 5.3.1] Increase the scope of pass-through costs or recoverable costs to cover a wider spectrum of categories of costs.
	RAB indexation
Vector	**Support** [93] Support removing indexation and adopting more front-loaded depreciation. [103] Remove the inflation uncertainty altogether.
Wellington Electricity	**Support** [Pg 10, 3.1.1, Topic 3a] RAB indexation to inflation: We disagree with the Commission's assessment that because indexing or not indexing the RAB is NPV neutral, suppliers will continue to have incentives to invest (and would therefore promote 52A(1)(a)) – that financeability will not impact the incentive to invest.
	New connection volume wash-up mechanisms for EDBs on a CPP
Vector	**Support** [268] Request unit cost data from EDBs to assess reliability of data for applying mechanism to DPP.
Wellington Electricity	**Support** [3.1.3, Topic 3c] We like the concept and intent of a washup mechanism based on standard cost but believe it should be included as an option an EDB could choose to use when making a CPP application.
	IRIS mechanisms
Alpine Energy	**Support** [38] Commission should adjust forecast values using LCI, PPI and CGPI. *Unison supports that the adjustment should be consistent with how the allowances have been inflated – taking DPP3, the inflation method was opex by weighted average of all industries LCI (60%) and PPI (40%), and capex, all industries CGPI.*
Aurora Energy	**Support** [9] Inappropriate IRIS incentive mechanisms in current form and should be paused during this period of transition [24] and [25], [27] and [28]. *Unison supports pausing IRIS if material inadequacies cannot be resolved.*
Vector	**Support** Appendix C: expenditure incentives and IRIS, including [198] and [199] new customer connection growth is outside of the control of EDBs and should be removed from IRIS.

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Wellington Electricity	**Support** [Pg 11, 3.1.2 Topic 3b] Implications for IRIS for cashflow timing, focus areas of: a. Whether to remove some costs from the IRIS or treat costs as a pass-through where cost fluctuations are outside of an EDBs control and the IRIS will not be rewarding or incentivising efficiency (minimising unnecessary cashflow fluctuations); b. Develop a long-term solution to the opex/capex trade-off between regulatory periods. [Pgs 21, 22, Topic 4e] Explore alternative options of excluding categories of expenditure from IRIS. Figure 4: consider reasons to pass through or exclude from IRIS.
	Innovation and non-traditional solutions
Contact	**Oppose** [2] Proving innovation would not occur without the funding.
Drive EV	**Support** [37] Sharing capacity information. *Unison's supports sharing capacity information through existing and proposed mechanisms like congestion heat maps and hosting capacity tools.*
ENA	**Support** [6.4] Innovation allowances changes do not go far enough to remove the barriers of uptake or to strongly signal and support innovation.
Wellington Electricity	**Support** [Pg 6] Solve residual issues: cost efficiency mechanisms that allows opex and capex substitution across regulatory periods. [Pg 25-27] Given the value of flexibility to customers, both in terms of price and maintaining supply security we think it is important that customers also share in the risk. We believe that for the Commission to meet its Part 4 obligations it must be more active in promoting innovation to support the development of demand side response, visibility and management of new demand and flexibility mechanisms.
	Cost of Capital

	Unison strongly supports the Oxera report submitted on behalf of the six largest price-quality regulated EDBs ('Big 6') on 19 July 2023, including that the following changes would result in materially better Part 4 outcomes:
	• *Regulatory stability and predictability support maintaining the 67th percentile;*
	• *The Tax Adjusted Market Risk Premium should be 7.5%*
	• *The Risk Free Rate should change to the trailing average method;*
	• *Term of Debt should be five-twenty years;*
	• *The Term Credit Spread Differential requires an accurate update to estimate.*
	• *The IMs should include a:*
	    ○ *financeability test; and*
	    ○ *equity issuance test.*

Aurora Energy	**Support** [15] Concerns about excluding the Covid 19 period from beta estimates – support principled and objective measures of inputs in the WACC calculation.
Contact Energy	**Oppose** [2] Reducing the WACC percentile to the 60th.
Chorus	**Support** [8a and b] We disagree with the reasons for not adopting the full trailing average approach and believe it would materially better achieve the purposes of the IMs and Part 4. [11] Promote a stable WACC that better reflects real-world financing conditions that efficient firms can reasonably be expected to face.
Electricity Networks Association (ENA)	**Support** [4] Frustrated by process and before final IM Decisions should hold concurrent expert advice sessions on: a. WACC percentile b. Debt tenor

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	c. Use of the trailing average approach to debt. [4.] Commission has not adequately demonstrated that its decision to amend the IMs to reduce the WACC percentile meets the overarching objective of the IM review. [4.5] Need to provide for raising equity.
Infratil	**Support** [29] Excluding Covid 19 data represents a change to a well-established approach undermines confidence, and harms investor confidence.
Major Electricity Users Group (MEUG)	**Oppose** [14] Moving toward a mid-point WACC. **Support** [15a and b] Refining reopener process.
Orion	**Support** [16] Reduction to 65th percentile leaves EDBs undercompensated for the challenges of increased expenditure incurred during DPP3.
Vector	**Support** [83] PWC Regulatory Financeability report, Commission's reasons not to include a financeability report are not compelling. [85] How the Commission to assess whether a financeability problem exists and how it would go about remedying a problem. [87] Commission's reasoning is flawed and [89] Commission has not disclosed evidence of impact of continued indexation on EDBs cashflow.
Wellington Electricity	**Support** [Pg 7, 8] Calculating a more robust cost of capital. [Pg 28, 29] Figure 6 – Cost of debt Recommendations. [Pg 30 - 32] Figure 7 – Cost of equity Recommendations. [Pg 33, 34, 4.2, 4.3 and 4.4] WACC percentile, reasonableness check and equity issuance. [Pg 10, 3.1.1, Topic 3a] RAB indexation to inflation We disagree with the Commission's assessment that because indexing or not indexing the RAB is NPV neutral, suppliers will continue to have incentives to invest (and would therefore promote 52A(1)(a)) – that financeability will not impact the incentive to invest.
	Improvements to revenue path
Aurora Energy	**Support** [29] Expand definition to include reasonable and prudent Transpower costs. [31] A mechanism focussed on revenue ignores the impact that connection growth has on reducing customer price and has the effect of disadvantaging electricity distributors operating higher growth networks. [32] Adjust for the change in connections determined, to achieve better alignment of the mechanism with the intent of mitigating consumer price shocks.
Contact Energy	**Oppose** [2] Firmly apply revenue smoothing limit. [2] Removing pass-through Transpower costs.
ENA	**Support** [5.8] Support pass-through transmission charges.
Orion	**Support** [21] Support a 5-year regulatory period.
Vector	**Support** [154] Price cap is removed and develop an IM that specifies how it would set prices at the price-quality reset.
	CPP and In-period adjustment mechanisms
	Large Connection Contracts (LCC)
Aurora Energy	**Support** [38] Is it optional? [41] What is the expected treatment of the commercial risk of a stranded asset. [43] If party meets the criteria for workable or effective competition, lower the threshold. [A.1.4] Is the network component expected to be within the RAB? *Consistent with questions in Unison's submission.*
Contact	**Oppose**

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	[Pgs 3 – 7] Removing the LCC mechanism. *The risks raised seem resolvable by options to improve it, including clarifying flexibility in use and that both parties must approve its use.* *Unison considers that there are other drivers to its efficiency and fair costs outside of regulation. In respect of ensuring prudent and efficient costs of new connections to the electricity system, distribution costs should not be a 'last issue to consider'. EDBs cannot be left to absorb the costs and risks of funding because of external constraints affecting location that are outside of their control.*[1]
MEUG	**Support** [16] Why LCC mechanism is beneficial.
Mercury	**Oppose** [Pg 3] Removing the LCC mechanism.
Meridian	**Support** [Pg 3] Flexibility to include LCC in RAB if requested. **Oppose** There is a risk EDBs will extract excessive profits.
Powerco	**Support** [Pg 15] LCC threshold at an equivalent monetary threshold to reopener applications in addition to a MW threshold.
Wellington Electricity	**Support** [Pg 50] [5.5] Include that both parties must agree to its use.
	CPP and reopeners
Alpine Energy	**Support** [44 e.] Eligibility for reopeners following National Policy Statements. *(See also Vector request for clarification of scope)* [45 - 50] Clearer guidelines, fast-tracked reopeners, and improvements. [52] At a minimum, remove catastrophic event expenditure from IRIS calculation.
Aurora Energy	**Support** [34] More prescription about the information required to support a reopener process.
ENA	**Support** [3.2] Reopener across regulatory periods. [3.3] Threshold should be, the lower of, 1% of the EDBs revenue allowance or $2 million.
Powerco	**Support** [Pg 13-] Topic 3: a. Introduce reasonable reopener timing expectations; and b. Commission reconsider its position on contingent allowances.
Transpower	**Support** [31] and [32] including: a. We do not know the precise probability of events occurring; and b. We need funding flexibility for work on our assets so we can collaborate with our customers to determine what their risk appetite is to major hazards. [102] If not insurance pass-through, then uncertainty mechanism. [117], [118] We do not think the lack of information should prevent resilience work from proceeding when there are clear risk mitigation benefits at a relatively low cost. [119-] Providing for sustainability through biodiversity expenditure.
Vector	**Support** *CPP* [112] – [114] A CPP provides little solace. Applying for a CPP is an extremely costly, impractical option, with no guarantee it will address the underlying issues to prompt application.

[1] Costs to connect are directly derived from the network capacity and physical infrastructure surrounding a particular location (as with water, transport, and communications networks). The generation project applicant, through consenting processes, has the information and responsibility to demonstrate it has considered adequate alternatives. While that may present another constraint in a challenging area, distribution costs, depending on materiality, may appropriately support the 'Best Practicable Option'.

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	[236] Include a single issue CPP. *Whether reopeners will cover future circumstances* [237] Provide process improvements. [242] Clarify scope. [244] Include a contingent project reopener. [248] If no reopener, ensure digitalisation and data, LV monitoring, and increased insurance premiums are accepted in EDBs’ opex allowances for the next reset DPP4. *Materiality threshold* [257] Removing $30 million cap for reopeners is positive, but also require a single issue CPP. [259] Too much discretion left with Commission and ability to force EDBs to make a CPP application. [262] $100,000 is a materially better threshold for error events.
Wellington Electricity	**Support** [Pg 5] Base reopener allowances on expenditure (rather than asset commissioning) could help avoid customers projects being delayed because they can’t fit within the boundaries of a regulatory period. [Pgs 5, 48, 49] Contingent reopeners, new pass-through costs and contingent allowances could all be useful in different circumstances. [Pg 5] The ability to match allowances with customer requirements is central to delivering the purpose of Part 4, specifically, providing EDBs with incentives to invest. [Pg 5] Fast track changes to reopener mechanisms; and the LCC mechanism. [Pgs 8, 9 and section 5] Improve regulatory certainty with: guidelines to support a CPP and reopener application, removing subjective reopener criteria that create uncertainty about approval. [Pg 9] Calculation of allowances for flexibility: EDBs will not be able to forecast a budget for flexibility payments accurately. [Pg 44] Apply allowances based on expenditure (not commissioned assets) or allow a reopener to apply across regulatory periods to enable customer projects to be implemented when they are needed, and not when the artificial barriers of the start and end of a regulatory period allow them. [Pg 48] [5.3.5] There is no ability to adjust allowances for unexpected and significant increases in operating costs…Material increases [in opex] will mean that reprioritising means stopping essential functions.

Nāku noa, nā

Rachael Balasingam

Regulatory Manager

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