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Tēnā koe,

Powerco submission on EDB DPP4 capex framework design workshop

Powerco Limited (Powerco) welcomes the opportunity to provide feedback on the Commerce Commission's capex framework design workshop and accompanying questions.

Our feedback is provided in Attachment 1. If you have any questions about this submission, please contact Nathan Hill ([redacted].

Nāku noa, nā,

[redacted]

Stuart Dickson
General Manager, Customer
POWERCO

Attachment 1: Powerco's feedback on the capex framework questions

AMP Review

Question	Powerco's response
In your view how could the "NZ EDB 2023 AMP Review" report be taken into account within our capex framework?	We find the report's applicability within the DPP4 Capex framework somewhat limited. It primarily highlights the challenges of comparing EDBs using qualitative information from AMPs. However, one avenue worth exploring is how the report could contribute to setting capex scrutiny thresholds tailored to different EDBs. These thresholds could also consider the relative maturity of EDBs AMPs.

Session 2: Assessing capex forecasts

Metrics for assessing system growth, consumer connections, and renewal-related expenditure (slides 28-51)

Question	Powerco's response
Are the proposed metrics (individually and/or in combination) useful for identifying EDBs where additional scrutiny may be warranted?	Yes, we believe that the proposed metrics, both individually and in combination, offer useful insights for identifying aspects of EDBs' forecasts that may require further scrutiny. While these metrics do not singularly determine whether an EDB's forecast expenditure should be approved or rejected, they serve as indicators for the need for closer examination. The metrics selected by the Commission are broadly suitable, and we don't propose alternative options at this time. Nonetheless, it's important to acknowledge the following limitations and complexities associated with the proposed metrics: • **System growth capex per incremental amount of system wide peak demand.** The System growth per MW of demand growth metric can be misleading due to the lumpy nature of System Growth spending and its tendency to be out of sync with demand growth. This metric is heavily influenced by EDBs' demand forecasts, with some EDB's forecasting significant demand increases, thus lowering the metric. In contrast, our approach is conservative, projecting only modest electrification demand over the next five years.

Question	Powerco's response
	• **Consumer connections: cost per new connection metric.** The cost per connection metric, while informative, needs to be more granular to reflect the vastly different costs of different connection types. For example, a decrease in the proportion of lower-cost small connections, which typically constitute around 98% of our connections, coupled with an uptick in higher-cost commercial and industrial connections, could substantially impact this metric. We also consider that some of the difficulty the Commission is experiencing in assessing or comparing appropriate expenditure levels arises from substantially varying assumptions applied by EDBs to some of the major cost-drivers. For future resets, it may be beneficial for the Commission to conduct some work, alongside EDBs, to improve some of the commonality of assumptions and how investment forecasts are built up from these. For example, we understand that there are widely diverging EDB views on the impact of electric vehicles on peak demand, or the likely rate and extent of emerging flexibility services. There are also different views on how the increase or reduction in peak demand should be reflected in future investment forecasts.

Application of additional test (slide 53-57)

Question	Powerco's response
Some EDBs are expected to be identified (according to the proposed metrics or alternative metrics) to belong to a 'further scrutiny grouping', for one or several expenditure categories. Please identify effective means of providing additional assurance (consistent with the relatively low-cost nature of a	EDBs must be given the opportunity to provide additional information and clarifications regarding their classification into "further scrutiny" groups. In-person meetings with EDB representatives offer the most effective avenue for this. Information requests can serve as an alternative or complementary approach.

Question	Powerco's response
DPP) that the forecast levels of investments are in the long-term interest of consumers: • additional information requirements and/or tests that could be applied • how investments that are particularly uncertain could be identified (on the basis that they may be better addressed through reopeners).	
Historical reference periods are likely required to assess the scale of change. What reference period should the capex framework adopt for DPP4 and why?	We believe that using data from the three most recent years offers a suitable basis for evaluating the scale of change in the DPP4 period. Data going further back may not accurately capture the evolving trends in the operating environment of EDBs.

Questions from Session 3: Other factors which apply to a DPP capex framework

Large connection contracts (slide 65)

Question	Powerco's response
Please identify whether LCC-eligible connection expenditure is listed in AMP 2023 and/or information provided in response to the s53ZD notice (issued November 2023) and the location of this information within the documentation provided. If you haven't identified LCC-eligible connection expenditure, please comment on the feasibility of creating a list of connection projects and programmes that would potentially meet the definition of an LCC in AMP 2024. If the information is readily available, please provide the listing.	We have several potential LCC (Large Customer Connection) projects in our pipeline. However, accurately predicting the timing of these projects proves challenging, leading us to rely on a trend-based approach for our consumer connections forecast. Consequently, while our forecasts incorporate implicit LCC connection expenditure, it is not allocated to individual projects. Therefore, given the nature of our forecasting method and the inherent uncertainties, creating a comprehensive list of these potential projects is not practical.

Additional reporting requirements (slide 74)

Question	Powerco's response
What are your views regarding our proposal to place additional reporting requirements on EDBs with significant increases in work programmes? • What alternative proposals can you suggest that would achieve a similar outcome of enabling interested stakeholders to assess how well EDBs are delivering their significantly increased work programme?	We advocate for EDBs to produce consumer-facing annual delivery reports, enhancing transparency regarding their performance and the delivery of planned projects/investments. This transparency boosts accountability to customers and stakeholders and incentivises efficient expenditure, driving overall improvements. It would also support the Commission by improving its understanding of short-term delivery, including unit costs and actual delivery numbers per major asset type. This information would be help remove some of the uncertainty and variances in assessing forecasts at future regulatory resets. The track record of Powerco and Aurora in providing such reports shows their practicality and value for both EDBs and other stakeholders. Extra disclosure could have a material operating cost and in some cases a capital cost. So, the Commission needs to ensure that this is taken into account in determining the extent of additional information to be delivered and, where appropriate, whether additional allowances are justified. **Annual delivery report content** Additional reporting should focus on matters that are significant to consumers and other stakeholders, shining the light on how EDBs are supporting the energy transition and adapting to their evolving operating environment. We identify these key areas as: • **EDB's execution of proposed projects and programs**. Given the significant uptick in required expenditure for the upcoming regulatory period and the industry's apparent challenges in delivering this level of investment, stakeholders are undoubtedly keen on transparent insights into an EDB's execution of proposed projects and programs included in its AMP forecasts. We suggest a balanced mix of objective quantitative metrics and

Question	Powerco's response
	subjective qualitative commentary to provide a complete understanding of investment delivery. • **Resilience improvements**. Particular emphasis should be placed on the effectiveness of investment in resilience improvements, considering escalating climate extremes and the increased reliance on electricity as a primary energy source. • **Non-network solutions**. Information on EDBs' connections of, and investments in, non-network solutions, such as flexibility services. Embracing non-network solutions is pivotal in achieving cost reductions and better consumer outcomes. The Commission could design this information requirement to support its innovation incentives and EDB DPP reopener applications, such as comparing actual EV connections versus forecasted figures. • **Worst-served customers/worst-performing feeders.** Network-averaged SAIDI/SAIFI figures only provide an average customers' reliability experience. Reporting on the worst served customers on a network (or worst performing feeders) would help focus on specific areas that (potentially) need improvement.

Deliverability (slides 68-73)

Question	Powerco's response
We understand that forecast expenditure is driven by project size & scope, volume of work and cost of the work programme. To the extent that the increase in the forecast work programme is due to cost, please explain the variation in cost increases across capex categories beyond CGPI. What support information/analysis can you provide?	Like many industries, we have experienced significant cost increases across our delivery portfolios. Although we have seen cost increases in all asset types the two most notable areas are overhead line and substation building construction. The cost of crossarms materials and traffic management are the main contributors to the increased cost of overhead line construction. The broader rise in civil construction costs across the economy has impacted the cost of constructing substation buildings, which house critical switchgear and

Question	Powerco's response
	protection devices. Shipping costs and global metal prices have also affected the cost of our larger transformers and switchboards. **Evidence of cost increases beyond CGPI** The ENA is presently organising the compilation of EDB Asset Replacement and Renewal data, encompassing quantity and cost information for common asset types over the past 5 years (ending 31 March 2023). This initiative aims to ascertain whether EDB input costs have increased faster than the cost escalation adopted by the Commission. The ENA plans to share this information with the Commission.
Apart from having considered the challenges of delivering your work programme at an individual EDB level, what approach and evidence do you have that you have also taken into account potential sector-wide deliverability constraints?	Powerco maintains ongoing relationship with the major electrical infrastructure contractors in NZ and through these relationships gains broad insights into the outlook for deliverability and resourcing.
What are your views on our proposal to consider deliverability as part of uncertainty regarding EDB expenditure, alongside need, timing and cost? What alternatives do you propose?	We understand the rationale behind considering deliverability as part of the uncertainty surrounding forecast EDB expenditure. In our submission on the DPP4 issue paper, we stated that this concern reflects a realistic awareness of the current labour market, supply chain, and economic challenges in New Zealand. However, reducing EDB allowances due to delivery risks will inevitably result in EDBs falling short of meeting the necessary investment levels crucial for supporting the energy transition and achieving New Zealand's decarbonisation objectives. We believe that premeditating EDBs' ability to deliver does not serve the long-term interests of consumers. It's worth restating that EDBs' 2023 AMP capex forecasts align with the projections made in 2022 by the Boston Consulting Group (BCG) in their 'The Future is Electric' report. While delivery constraints may well become a serious issue in the future, we believe that this has to be resolved through industry collaboration and sound advanced planning, not through regulatory

Question	Powerco's response
	restrictions. To reduce under-delivery risk, we accept that the Commission would have to look more closely at actual delivery outcomes – which supports our suggestion for additional annual reporting (discussed above). We remain open to supporting other viable options as well.
Are there particular categories of capital expenditure which are more likely to be exposed to potential deliverability constraints?	The expenditures most susceptible to potential deliverability constraints are typically those for very large projects, as these are non-routine and generally require equipment that is not run-of-the-mill. At the same time, these projects by their nature are few in number and would have well-developed, individual business cases – thus lending themselves well to consideration for re-openers. Should the Commission decide to reduce EDB allowances due to delivery uncertainty, it might therefore be logical for this adjustment to focus on expenditures related to these significant projects.

Questions/requests not in the slide pack, but mentioned by the Commission during the workshop

Question	Powerco's response
It would be helpful if EDBs could define in their 2024 AMPs the uncertain expenditure.	Defining "uncertain expenditure" presents practical challenges. Customer-initiated work serves as a prime example. While this segment of our portfolio is inherently more uncertain than others, determining specific percentages of uncertainty, such as whether it constitutes 10% or 20% of the total forecast, poses a challenge. This highlights the rationale behind our trend-based approach to forecasting this expenditure. Attempting to construct the forecast bottom-up from known customer projects would likely lead to over-forecasting in the short term, as some projects may not materialise as expected. Conversely, the long-term forecast would likely fall short due to limited visibility of future customer needs. Therefore, a trend-based forecast represents a pragmatic approach to obtain a mid-point estimate of anticipated consumer connection expenditure.

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	Our forecasts are based on what we deem necessary to serve our customers, ensuring value for money, and feasibility of delivery. There is also significant uncertainty related to longer-term forecasts for the big electrification drivers (EV uptake, process heat conversion, domestic gas conversions, etc.). However, while we expect these factors to drive significant future expenditure, their immediate impact (other than for known conversions) is generally not included in our shorter term investment plans. Reducing the allowance for these factors are therefore not likely to have a major impact on DPP4 price settings.
What "uncertain" expenditure did EDBs exclude from their AMPs?	Our executive leadership team and Board reviewed and moderated our expenditure forecasts. Consequently, we made specific exclusions, such as potential 110kV developments in the Western Bay of Plenty, because of uncertainty regarding the division of delivery scope between either Transpower or Powerco. Additionally, we opted to exclude a potential program for customer service line replacements, which is currently being reviewed. While this expenditure wasn't inherently uncertain, it's removal was part of our process to achieve a defensible and robust investment profile that balances customer cost impacts.