



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

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Chapter 2 – Context and challenges		
1	<p>We are interested in your views on whether we have properly understood the changing industry context as it relates to the DPP4 reset.</p> <p>Have we properly understood and represented the changing industry context and are there other implications for the DPP4 you believe we should consider?</p>	18

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1 Response:

Horizon Energy Distribution Limited (Horizon Networks) considers the Commerce Commission has understood the changing industry context, however, there is not enough emphasis on the constraints the proposed DPP4 settings place on investment requirements

DPP4 will constrain investment requirements.

DPP4 will set limits on the revenue that EDBs can recover within the regulatory period. This limit on the revenue will directly impact the ability for EDBs to invest in the network to maintain quality standards and equally to support continued growth from the decarbonisation of the economy. The final decision to retain the indexation will place added pressure on EDBs cashflows.

It should also be noted that Horizon Networks' Asset Management Plans (AMP) are not 'aspirational'. The Horizon Networks AMP reflect the requirements to maintain the network using a risk-based approach, taking into account price-path constraints, while confirming investment requirements for decarbonisation and climate change.

Horizon Network is concerned that consumer expectations regarding the scale and pace of decarbonisation, particularly on the LV network and behind-the-meter growth in residential demand due to electrification of transport and heating will exceed the Commerce Commission's 5-year settings, and a reliance on the reopener process to manage uncertainty will leave consumers and EDBs constrained and unable to invest until the Commerce Commission has considered the request via its complex, opaque and uncertain reopener process. Additionally, 'behind the meter' customer decisions, such as the installation of solar or EV charging may force EDBs to make urgent, but efficient investment decisions that will attract IRIS penalties and cannot wait for the reopener process.

It is critical that the Commerce Commission gets these settings right, and not defer difficult decisions by relying on an opaque reopener process to manage uncertainty.

The reopener process could introduce significant delays in addressing the growth needs once the needs become certainty, and in addition, the uncertainties in approval of the reopener will make planning and committing resource to the project challenging.

Chapter 3 – Forecasting capital expenditure

Number	Request for comment or responses on initial views	Page
2	<p data-bbox="363 266 1241 376">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.</p> <p data-bbox="363 405 1214 477">Do you have any particular concerns or issues with our proposed approach? If so, how could these concerns or issues be resolved?</p> <p data-bbox="363 506 1246 689">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?</p>	27

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2 Response: Horizon Networks agrees that historical expenditure is not a good indicator of future need under the current investment scenarios.

We support the use of the latest AMP information and independent review of AMP forecasts; however, we wish to emphasise:

- AMPs are a risk-based forecast of necessary expenditure.
- The consumer impact of incorrect CAPEX settings is asymmetrical.

AMPs are prudent forecast

As noted in our answer to question 1, our AMP is not ‘aspirational’, and Horizon Networks looks to forecast what expenditure is necessary to meet quality standards, while taking into account price-path constraints. It is essential that the settings allow EDBs to invest appropriately for current requirements and also plan for ongoing decarbonisation and resilience needs, despite the uncertainty regarding the timing and scale of investment required.

The consumer impact of incorrect CAPEX settings is asymmetrical

The DPP looks to balance the risk of overinvestment and underinvestment.

It is acknowledged that from DPP4 onwards, New Zealand will be electrifying the economy at a much faster rate than historically. As a result, the impact of incorrect CAPEX settings becomes asymmetrical with consumers suffering if they are unable to access electricity to meet their energy needs.

Overinvestment in the network will mean consumers pay more than is economically efficient, as capacity is brought online ahead of need, but under most scenarios, the need for that capacity will eventuate.

Underinvestment in the network may mean consumers are unable to access the network capacity they need or achieve New Zealand’s electrification goals. These consequences can be more dire, with consumers losing confidence in New Zealand's electricity system, and shifting to more expensive or carbon-emitting alternative fuel sources due to the network being unable to meet their needs.

The tension between efficient investment and meeting all consumer's needs will increase demand for having the right setting up front and ensuring there is immediate resolution via uncertainty mechanisms, such as reopeners or contingent allowances.

Uncertainty mechanisms need to be much faster and more efficient than they currently are. By the time underinvestment is identified consumers will already be demanding more capacity and looking for other ways to meet their energy needs.

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3	<p>We are proposing to apply the capital goods price index to forecast capex allocations.</p> <p>Is there a more appropriate index which could be applied; and, if so, why?</p>	27
<p>3 Response: Horizon Networks agrees that CGPI is an appropriate index to apply.</p>		
4	<p>We have concerns about the challenges in delivering increased programmes of work given current labour market, supply chain and economic challenges in New Zealand.</p> <p>How should our capex forecast take into account potential sector-wide deliverability constraints?</p>	27
<p>4 Response: Horizon Networks is aware of deliverability challenges and as part of developing the AMP forecasts we work closely with our suppliers to ensure the scale and timing of projects are realistic and deliverable.</p> <p>Horizon Networks uses its internal contracting business, Horizon Services Limited (HSL) to deliver its programme of works.</p> <p>When developing our AMP forecasts, we engage with HSL to ensure the forecast workload is within HSL's capability to deliver. We have over the last decade built internal capacity to deliver the forecast works program and we have the ability to call on our own external teams to help support any programme delivery.</p> <p>Despite this robust collaborative approach to planning, there are delivery risks that we cannot fully mitigate. This is because some projects require specialists, which we will need to outsource. For example, substation upgrade design, renewable energy connections, and new technology-related projects. To manage this we have a panel of contractors and consultants that we can call upon.</p> <p>In addition to labour resource requirements, procurement of materials such as transformers, switchgear, and protection relays face ongoing challenges, with the risk that global demand may start exceeding supply.</p> <p>This could result in cost escalation and increased delivery timeframes.</p> <p>At Horizon Networks we work closely with our suppliers closely to manage the impact of supply-side risk, through good forward planning and collaboration. Over the last 5 years, HSL has been ordering long lead items earlier to manage delivery and pricing risks.</p> <p>While Horizon Networks is able to manage deliverability risks, Horizon Networks considers the Commerce Commission should be considering the financial and financeability risks of this work to ensure EDBs can recover enough revenue to cover unforeseen cost escalation and the ever-increasing cost of borrowing.</p>		

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5	<p data-bbox="363 266 1241 338">We will be using the s 53ZD notice to collect information about how EDBs have reflected resilience in their expenditure forecasts.</p> <p data-bbox="363 367 1241 477">What engagement have EDBs had with consumers about resilience expectations, especially as it relates to significant step changes in forecast expenditure?</p> <p data-bbox="363 506 1241 651">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?</p>	27

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5 Response:

Engagement:

Horizon Networks completes a bi-annual customer survey to understand our community's preferences around quality of services, willingness to pay for more resilient services, and the appetite for improved decarbonisation offerings.

From this survey, we found that around 35% of the respondents either have already invested in or are likely to invest in EVs, and over half of the respondents have invested in or are considering investing in alternative energy (e.g. PV). Most customers expect to have power restored within 3 hours. The majority of our customers oppose paying more to improve restoration time.]

Network resilience is becoming more and more critical as people and businesses transition away from fossil fuels and make electricity their primary energy source.

The criticality of continuous electricity supply for the grid may be partially offset by the expected increase in uptake of residential and commercial PV generation and battery, however, the timing and location of this is unlikely to perfectly align with resilience needs.

Resilience investment is challenging. There are multiple natural hazards that could threaten the network and there are interdependencies between infrastructure providers. EDBs cannot manage the supply of electricity without other critical infrastructure such as roading and communications.

Chapter 6 of the AMP sets out the work that Horizon Networks has done to better understand the impact of acute and chronic risks that decarbonisation and climate change will have on the network. The corresponding investment reflects the need to build resilience that will extend beyond the current 10-year period.

To support a consistent approach to forecasting resilience expenditure that meets community needs there should be clear and consistent industry guidance on EDB resilience requirements, particularly for known, high-impact events such as flooding.

Other considerations:

The Commerce Commission should consider that resilience needs and consumer resilience expectations change over time and are influenced by recent events and changing standards. Consumers are aware of the impact of recent events such as cyclone Gabrielle and post-event have an increased willingness to support resilience investment. However, resilience investment provides the most benefit to consumers when it is made ahead of need when consumers do not necessarily see the benefit.

This issue makes resilience investment and expectations difficult to manage, and difficult to justify, except after assets have already failed.

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6	<p>We would like to understand how potential changes in capital contributions policies could be accommodated in DPP4.</p> <p>How could changes to capital contributions policies, either in advance of or within the regulatory period, be accommodated within our capex forecasts for DPP4?</p>	27

6 Response:

Capital contribution policies are an essential tool for EDBs to support cost-reflective pricing and limit the costs existing consumers face due to new connections coming onto the network. Horizon Networks does not support any changes that would mean existing customers face higher charges due to a new customer connecting.

Any change to capital contribution policies will trigger changes to two elements within the context of DPP4.

Firstly, there is the direct capital contribution. These are the assets required to connect the customer, which the customer funds. If EDBs are required to pay for these assets, then this will increase the “Customer connection less capital expenditure” lines within Schedule 11a, by the capital contribution amounts.

Secondly, there is the infrastructure development contribution (IDC). This covers the cost of upgrades to upstream assets because the new load (or generation) is connected to the network.

The impact of not receiving the IDC is difficult to accurately quantify for a given DPP period, as it impacts the timing of investments potentially shifting investments between DPPs, within the DPP or affecting future investments that sit outside of the current DPP period.

Horizon Networks recommends that the Commerce Commission look at a ‘without IDC’ and ‘without capital contribution’ scenario, so this information can quickly be applied to quantify the amount that should be provided as a rapid reopener, or as an allowance, triggered by regulatory change.

Removing other income from the calculation of the Maximum Allowable Revenue will enable EDBs to retain capital contributions, that are being rightly recovered for customer-driven growth that is otherwise not allowed for in the DPP capex settings.

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7	<p>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.</p> <p>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?</p>	27
<p>7 Response:</p> <p>Horizon Network’s current demand forecast considers:</p> <ul style="list-style-type: none"> • Organic growth (based on historical trends). • Committed step changes. • A projected decarbonisation-related demand growth (which includes both step changes and organic ‘behind the meter’ growth due to technology changes such as solar generation, use of batteries, increased demand from electric vehicles, and decarbonisation of heating). <p>Horizon Network’s capital contribution policy applies a ‘causer pays principle’. This means the connecting customer covers the upfront capital cost of the connection. This approach allowed Horizon Networks to minimise the risk of overinvestment due to speculative demand or generation.</p> <p>For organic growth and ‘behind-the-meter’ growth, Horizon Networks has developed models to understand the uptake rates and impacts of the key decarbonisation activities on network demand.</p> <p>We have completed analysis at both the HV and LV levels to understand the risk of network constraints which is used to inform our investment forecast. The modelling and analysis are expected to improve over time with new information.</p> <p>We also consider the opportunities for efficient ‘forward-looking investment’ to ensure when upgrades are planned, they consider not just the immediate need, but also future decarbonisation-driven growth.</p> <p>For major investments, we develop business cases that include a detailed cost-benefit analysis covering likely scenarios, including non-network solutions to support informed decisions regarding the investment.</p>		
<p>Chapter 3 – Forecasting operating expenditure</p>		

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8	<p>We are considering updating our approach to forecasting opex input price escalation to better reflect the mix of inputs EDBs face.</p> <p>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.)</p> <p>If so, what evidence supports this view?</p>	34
<p>8 Response:</p> <p>Horizon Networks supports a simple evidence-based approach to forecasting OPEX input price escalation.</p> <p>Horizon Networks does not have any evidence to support a specific approach, and in the absence of a suitable alternative would support the existing mix of LCE and PPI used for DPP3.</p> <p>We note that different OPEX elements will have different drivers. For example, cybersecurity and insurance costs have escalated out of line with other elements of OPEX. Any EDB-specific index should include a mix of escalators that reflect the mix of OPEX costs faced by EDBs.</p>		
9	<p>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.</p> <p>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?</p> <p>Are there alternative drivers that we should consider, and what evidence is there that they can meaningfully predict EDB scale growth?</p>	34
<p>9 Response:</p> <p>Horizon Networks supports the emerging view that considering CAPEX could improve OPEX forecasts. CAPEX and OPEX are treated separately for accounting purposes, however both are ultimately investment requirements for the network. Horizon Networks agrees there is merit in OPEX forecasting having regard to CAPEX forecasting.</p> <p>In Horizon Networks experience additional CAPEX drives additional network OPEX and non-network OPEX. For example, owning additional assets means the assets need to be monitored and maintained (network OPEX), and those assets also require back-office support covered by non-network OPEX (such as financial and regulatory reporting).</p>		

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10	<p>EDBs have identified that insurance costs have been increasing at a greater rate than other costs they face.</p> <p>What evidence do you have about how these costs are likely to evolve over time?</p> <p>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?</p>	34
<p>10 Response:</p> <p>Due to the commercial nature of insurance negotiations Horizon Networks is unable to provide evidence of future rate increases, but discussions indicate that there has been a 20% increase in insurance costs due to recent New Zealand weather events.</p> <p>Additionally, as most insurers are active in the international market, the impact of bushfires in Australia, the USA and Canada are influencing premiums and the number of parties interested in offering insurance that could cover bushfire liability, even though the New Zealand bushfire risk is very different from Australia, USA and Canada.</p> <p>Some insurers are only willing to provide less than 50% coverage and indicative premiums suggest there will likely be general liability premium increases of between 25% and 50% from previous years. Equally over time, insurers are less likely to take on bush fire risk, resulting in EDBs, and ultimately consumers carrying further risk and costs.</p> <p>In terms of incentives for EDBs to make risk management decisions; insurance is a risk management tool that benefits consumers by limiting the shock of major events on prices. It is inefficient to require individual consumers to manage the risk of outages due to extreme events, and a stable price that includes an element of insurance against extreme events will be more palatable to most consumers, as compared to increased price volatility due to the costs of major events.</p>		
11	<p>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.</p> <p>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?</p>	34

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	<p>11 Response:</p> <p>Horizon Networks appreciates the work the Commerce Commission has put into developing the examples and clarifications for expected step changes in OPEX.</p> <p>In the context of decarbonisation, there are going to be more step changes in OPEX and CAPEX. In particular, if EDBs acquire flexibility services using OPEX, and that OPEX is later dropped due to additional investment in the network (CAPEX).</p> <p>The Commerce Commission’s proposed solution for these types of step changes is to utilise the reopener process. Horizon Networks is concerned that this approach to managing uncertainty in the DPP regime will result in a higher cost to consumers through the manual processes to handle reopeners, or through EDBs choosing CAPEX because the process of deferring CAPEX through OPEX may not be efficient.</p> <p>In terms of the detailed examples the Commerce Commission provided in its issues paper, Horizon Networks is also concerned that the criteria are too rigid and incentivise EDBs to avoid additional OPEX, even if there are long-term consumer benefits.</p> <p>For example, for “Low Voltage Monitoring”, the Commerce Commission would require EDBs to show that this expense was not in the EDB's control. However, it is clear this expense is within the EDB's control, as EDBs can simply avoid procuring the information for LV monitoring and invest in expensive monitoring of its own.</p> <p>This rigid approach to step changes in OPEX is a poor outcome for consumers. LV Monitoring information can be very expensive, but access to this information unlocks a number of technological alternatives to CAPEX and supports more informed investment in the network. These are outcomes that won’t happen if the Commerce Commission does not provide future-focussed funding for initiatives such as LV Monitoring, Flexibility services and ACOD.</p> <p>It is imperative that the Commerce Commission and the Electricity Authority regulate how meter data is shared between parties and establish a fair price for access to this data so EDBs and stakeholders can make more efficient decisions and support New Zealand’s energy future.</p>	
12	<p>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.</p> <p>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?</p>	38

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<p>12 Response:</p> <p>Horizon Networks agrees with the principle of no material deterioration, and that quality standards are set on a basis consistent with DPP3.</p>		
13	<p>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.</p> <p>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?</p>	38
<p>13 Response:</p> <p>Horizon Networks agrees with maintaining the 10-year reference period, and normalisation approach for major events.</p> <p>Horizon Networks notes that recent long-term events such as COVID lockdowns had an impact on consumption and on network demand and maintenance. This should be taken into account when considering what information to include in the 10-year reference period.</p>		
14	<p>Our initial view is step changes in reliability, if appropriate, may be accommodated through setting of values or revisions to definitions.</p> <p>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?</p> <p>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?</p>	38

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<p>14 Response:</p> <p>Horizon Networks agrees that the use of flexibility services to manage constraints can lead to an increase in outages where the flexibility service does not perform as intended. This is a risk that will incentivise EDBs to invest in reliable CAPEX solutions.</p> <p>Where the EDB is innovating (using new ideas and methods) there should be allowances made for non-performance of the innovation impacting SAIDI / SAIFI, so EDBs can learn from innovation without being punished for that learning.</p> <p>In terms of addressing inconsistencies (the multi-count issue), Horizon Networks has been working on back-casting SAIFI using the multi-count approach. Our learnings so far is that this is not a simple task and due to the techniques required to retrospectively generate a multi-count SAIFI dataset and limited historical information available will not have the evidence base required for an unqualified audit opinion.</p> <p>Given that EDBs are required to produce the multi-count information in future IDs, Horizon Networks recommends that existing, audited SAIFI standards are used for setting DPP4 targets with a view to transitioning to multi-count in DPP5, where there will be sufficient, audited historic information available to make an informed decision.</p> <p>Horizon Networks supports reporting multi-SAIFI as part of DPP4, however, it is not possible to set a robust multi-SAIFI target for EDBs that don't have reliable historical multi-SAIFI information.</p>		
15	<p>Our initial view is to not introduce new additional quality of service measures.</p> <p>Are there any other quality of service measures beyond those currently required within DPP3 that we should consider introducing, and why?</p>	38
<p>15 Response:</p> <p>Horizon Networks agrees that there is no need to introduce new quality service measures.</p>		
<p>Chapter 3 – Other issues</p>		
16	<p>Aurora Energy is scheduled to rejoin the DPP from 1 April 2026.</p> <p>Do you agree with how we propose to transition Aurora Energy to the DPP in 2026?</p>	40
<p>16 Response: No comment.</p>		

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17	<p>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.</p> <p>What particular challenges do you perceive may arise from shortening the regulatory period?</p> <p>What are the potential benefits to consumers from maintaining or shortening the length of the regulatory period?</p>	40
<p>17 Response: Horizon Networks supports maintaining the five-year regulatory period. The DPP process is resource-intensive shortening the period is unlikely to provide enough benefit to offset the costs of a shorter period.</p> <p>In terms of the specific questions asked:</p> <p>Challenges: Shortening the regulatory period reduces the amount of ‘in period’ information available to as little as 2 years. This makes it difficult for the Commerce Commission to draw conclusions as to the effectiveness of its actions in the current DPP to inform future DPPs.</p> <p>Benefits: Maintaining the regulatory period at five years provides regulatory certainty for the five-year period and provides at least 3 years of DPP experience with which to inform changes to the DPP.</p> <p>A four-year period would allow the DPP to better handle volatility, however, this could also be addressed through changes in the approach to WACC and other settings that are typically fixed during the DPP period.</p>		
18	<p>The DPP sets annual deadlines by which suppliers must make Customised Price-Quality Path (CPP) applications to enter into effect the following year.</p> <p>Do you support retaining a similar approach to setting CPP application windows as was undertaken for DPP3?</p>	41
<p>18 Response:</p> <p>No comment.</p>		
19	<p>The current IMs provide for a discretionary shortening of asset lives.</p> <p>Do you have views on the framework for assessing accelerated depreciation applications?</p>	41

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<p>19 Response:</p> <p>Horizon Networks supports having a framework for assessing accelerated depreciation applications where appropriate.</p>		
<p>Chapter 4 – Quality incentives</p>		
<p>20</p>	<p>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.</p> <p>Are EDBs considering the quality incentive scheme (QIS) in their investment decisions?</p> <p>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?</p>	<p>45</p>
<p>20 Response:</p> <p>Horizon Networks considers the quality incentive scheme (QIS) when making investment decisions. Horizon Networks supports setting the QIS in a way that is consistent with DPP3.</p> <p>Horizon Networks considers the proposed setting and incentive rate is appropriate. We have no evidence that the existing regime is not meeting consumer quality expectations.</p> <p>As noted earlier in our submission, QIS schemes can disincentivise more innovative (and riskier) solutions. In addition to any allowance to cover the cost of innovation, there should be consideration for the quality impact if the innovation does not deliver the expected level of service.</p> <p>QIS could disincentivise the investment in the parts of the network where there is little or no SAIDI impact. For example, residential decarbonisation efforts may contribute to constraints on the LV network, which is not subject to the same QIS as the HV network.</p>		
<p>21</p>	<p>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.</p> <p>How should we account for non-performance of non-network solutions (regulatory sandboxing)?</p>	<p>46</p>

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21 Response:		
<p>Horizon Networks agrees that innovation is risky, and could result in a lower quality service, compared to proven traditional solutions.</p>		
<p>Horizon Networks recommends the DPP includes a “quality allowance” for innovative solutions, that is linked directly to the actions of the innovation and recognises that these approaches may take time to establish and understand but sets a limit beyond which the EDB will need to decide it if wishes to continue with the innovation (and wear the quality consequences) or abandon the innovation to minimise future disruption to consumers.</p>		
<p>Horizon Networks supports the ENA views. If we suffer an outage because we were relying on a flexibility provider this should be reported as its own outage class and excluded from QIS and quality compliance tests.</p>		
Chapter 4 Innovation		
22	<p>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.</p> <p>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?</p> <p>Would you be interested in participating in a targeted workshop, and if so, are there any topics you consider should be covered?</p>	47
22 Response:		
<p>Horizon Networks agrees that the baseline incentives are insufficient to support innovation and there is a need for an innovation scheme to enable EDBs to explore opportunities and try new ways of doing things.</p>		
<p>The existing innovation scheme is not doing enough to incentivise EDBs to try new things, as EDBs are only rewarded under limited circumstances and when the innovation is a success.</p>		
<p>Horizon Networks would be interested in participating in a targeted workshop. Horizon Networks believes the underlying definition and expectations around innovation should be explored.</p>		

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23	<p>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.</p> <p>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?</p> <p>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?</p> <p>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.</p>	47

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	<p>23 Response:</p> <p>Horizon Networks agrees with the principles of proportionate scrutiny (scrutiny proportional to scale and significance (costs and benefits) and that the scheme must fit within the DPP paradigm (simple and relatively low cost).</p> <p>In terms of the remaining principles, as they apply to an innovation scheme within DPP4:</p> <p>Risk allocation – the risk is allocated to suppliers best placed to manage them.</p> <p>Horizon Networks notes that innovation is inherently risky and will not always provide a net benefit. Typically, EDBs will be best placed to manage this risk, and where they face the costs of failure EDBs can manage that risk by not actively innovating. This is because the benefit of innovation is for consumers, but the EDB wears the costs if the innovation does not deliver a benefit to consumers.</p> <p>This issue could be covered more effectively in the proposed workshop, but for the purpose of this consultation, Horizon Networks recommends the risk be allocated to the beneficiaries of the innovation, proportional to the potential benefits.</p> <p>Efficient expenditure - use expenditure efficiently to increase benefits to consumers.</p> <p>Horizon Networks notes that innovation is inherently risky and will not always provide a net benefit. The most efficient outcome can be to avoid investing in innovation when that innovation could fail. Horizon Networks considers that instead of a principle of efficient expenditure, there should be a principle of limiting consumers' exposure to inefficient expenditure or innovation that is excessively risky.</p> <p>Additionality – that project will not occur without this additional support.</p> <p>Horizon Networks is concerned that this principle does not drive an innovative mindset. Within the current DPP, it is acknowledged that the uptake of innovation incentives is low. Limiting innovation schemes to projects that would not otherwise occur without additional support limits the scope of innovation and incentivises EDBs to focus solely on innovation that fits this criterion.</p> <p>What the industry needs is a ring-fenced 'safe space' where EDBs are supported to try new ideas and methods without being subject to the traditional economic penalties associated with inefficient spending and quality standards.</p> <p>Energy efficiency, demand-side management and reduction of energy losses</p>	
24	<p>Our initial view is that a specific demand-side management and energy efficiency scheme is not required for DPP4.</p> <p>Is there a basis for strengthening the incentives for energy efficiency and demand-side management initiatives?</p> <p>24 Response:</p> <p>Horizon Networks agrees there is no need to introduce a specific demand side management or energy efficiency initiatives as part of DPP4.</p>	49

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25	<p>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.</p> <p>Do you agree with our approach to not introduce a specific QIS related to reducing energy losses?</p>	49
<p>25 Response:</p> <p>Horizon Networks agrees there is no need to introduce a specific QIS related to energy losses. Energy losses and reconciliation losses are regulated by the Electricity Authority¹. EDBs are subject to regular Electricity Authority audits that look at the losses on the network and levels of unaccounted-for energy. If either is outside of expected bounds then further information is required.</p>		
<p>Chapter 5 – Setting revenue allowances</p>		
26	<p>We are proposing to retain our approach of setting a ‘default’ X-factor of 0% (before considering price shocks or supplier financial hardship).</p> <p>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.</p>	54
<p>26 Response:</p> <p>Horizon Networks supports retaining a default X-factor of 0%. However, we also recognise that the investment requirements of EDBs will likely require a variation on X to be applied during the regulatory period in order to achieve the permitted maximum allowable revenue while avoiding price shocks at the beginning of the regulatory period.</p>		
27	<p>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.</p> <p>Do you agree with this approach? If not, are there other alternatives we should consider?</p> <p>When applying this (or any other) analysis, what factors should we consider in determining whether a price change amounts to a price shock?</p>	54

¹ <https://www.ea.govt.nz/industry/distribution/distribution-losses/>

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	<p>27 Response:</p> <p>Horizon Networks agrees that price shocks should be measured once inflation has been taken into account. The Commerce Commission needs to also consider the recoverable and pass-through cost influence on price shocks which is outside of the control of the EDBs.</p>	
28	<p>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.</p> <p>Do you agree with this approach? If not, are there other alternatives we should consider?</p> <p>When applying this (or any other) analysis, what factors should we consider in determining whether a supplier faces undue financial hardship?</p>	54
	<p>28 Response:</p> <p>Horizon Networks considers that financial hardship for EDBs will be ‘undue’ when it results in EDBs making decisions that limit New Zealand’s energy goals or consumer's access to the network.</p> <p>Horizon Networks is concerned that the amount of investment required to meet New Zealand’s energy goals, and the additional electricity costs consumers will face will result in regulatory settings that unduly limit an EDB's ability to fund network upgrades and recover the costs associated with this work.</p> <p>This would force EDBs to slow their work on electrification and not meet customers’ needs or go through the complex and lengthy process of applying for a CPP.</p> <p>Horizon Networks is also concerned that a revenue cap could result in revenue not being able to be recovered within the regulatory periods. This limit on revenue could impact EDB's ability to fund the spend necessary to electrify New Zealand’s economy.</p>	
<p>Chapter 5 – Consumer bill impacts</p>		
29	<p>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.</p> <p>What models or data inputs could be provided by EDBs which would improve our approach to modelling consumer bill impact?</p>	58
	<p>29 Response:</p> <p>Horizon Networks supports using the historic approach. As part of our annual pricing process, we model the customer bill impacts across our various price categories to understand and where possible mitigate price shocks to consumers.</p>	