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Ben Woodham, Electricity Distribution Manager
Commerce Commission
Te Komihana Tauhokohoko

E: infrastructure.regulation@comcom.govt.nz

Tēnā koe Ben

**UNISON NETWORKS LIMITED SUBMISSION ON EDB DPP4 RESET**

Unison Networks Limited (**Unison**) acknowledges the complexity of implementing the Commerce Act 1986 (**Act**) and Part 4 regime at a time when multiple external factors (to electricity lines services) are impacting consumers and suppliers as addressed in the Issues Paper. [1]

The IM Decisions confirm the Commission has accepted an increased tolerance for underinvestment, with some improvement of the potential impacts of inflation. To promote Part 4, the DPP4 reset must efficiently compensate non-exempt EDBs for the unfunded costs of DPP3.

**Under compensation and financing debt**

Critically, the starting point for the DPP4 reset is missing - **Electricity Distribution Businesses (EDBs) have been undercompensated through DPP3**. EDBs cannot be expected to deliver and contribute to the increase in large point connections without improved cashflows to finance the investment required and maintain balanced capital contribution to meet demand.

Without an effective rebalance, EDBs cannot travel from:

- **under compensation** and significant cashflow constraints;
- **to financing rapid increases in customer work** with balanced capital contribution policies;
- **alongside the challenging uncontrollable increases in non-network opex** (demonstrated by industry exceedances of opex allowances over DPP3, despite the substantial IRIS penalties that incurs);
- **while building and maintaining resilience**.

The primary risks of underinvestment in DPP4 and beyond are:

- undermining investment on a "least cost life-cycle basis", costing consumers more over the life of an asset;
- degrading quality of service as demand exceeds capacity; and

[1] *Default price-quality paths for electricity distribution businesses from 1 April 2025, Issues Paper,* published 2 November 2023.

- slowing down electrification[2] and innovation, preventing Aotearoa meeting the net-zero target.[3]

**DPP4 must mitigate the vulnerability of EDBs to increasing risks**

Non-exempt EDBs are now more vulnerable to being unable to make investment decisions on a 'least cost life-cycle basis' because of the decision to reduce the Weighted Average Cost of Capital to the 65th percentile, failure to provide a reopener mechanism for Government policy, and the retention of the IRIS mechanism on increasingly pressured non-network opex allowances.

Unison does not accept a CPP is an appropriate solution for deficiencies in DPP settings because of the cost, complexity, implementation lag, and prioritisation power afforded to the Commission in the Act. Reopener mechanisms do not 'cover the ground' to ensure least regrets regulatory settings.

The table on the page below sets out Unison's perspective on the increased risks into DPP4, how to reduce those risks, and what tools DPP4 can provide to better promote Part 4.

[2] *"…a change to energy use those results in an increase in net benefits per unit of energy", Energy Efficiency and Conservation Act 2002, s 3. Unison explains the relevance of this definition in its submission on the IM Decisions:* Unison-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf (comcom.govt.nz).
[3] Climate Change Response Act 2002, 5Q.

**Table One: Increased risks to non-exempt EDBs that DPP4 must mitigate**

| Why elevated risk in DPP4 | How to reduce risk | Potential solution to better promote Part 4 |
|---|---|---|
| **Large point connections (connection capex)** | | |
| • Government policy settings;<br>• industry emissions reduction; and<br>• pace of organic industrial growth i.e. large industrial point load<br>i.e. EV charging hubs, process heat conversions, organic industrial load, ESG requirements for businesses | • Sufficient cashflow to fund investment<br>• Defer investment<br>• Simple, prompt reopener mechanisms | • Efficient compensation for DPP3 (significant starting price increase and increased cap)<br>• Reopener for Government policy<br>• More certain funding mechanisms to minimise impact<br>• Financeability cross check against the regulatory cost of capital<br>• Wash up mechanism for WIP |
| **Severe weather** | | |
| Climate change increasing the frequency, intensity and scope of extreme event impacts on networks | • Move or upgrade assets to be more resilient<br>• Increased vegetation management (removing trees in the fall distance zone and vegetation in the growth limit zone)<br>• Adapt network operations and design to mitigate some risks (like modifying assets to minimise fire risk and using batteries instead of generators)<br>• Re-assess insurance | • Opex scaling relative to known risk profile<br>• Insurance pass-through or other recovery mechanism to fairly allocate risks which are beyond EDB control to consumers<br>• Opex step-change / scaling factor relative to the risk, including for insurance |
| **Cyberattack** | | |
| Global factors are increasing the sophistication and frequency of cyber attacks | • Invest more in cybersecurity<br>• Adapt business continuity plans<br>• Re-assess insurance | • Opex step-change or scaling factor relative to risk<br>• Recovery mechanisms that allocate risks beyond EDB control to consumers |
| **Demand exceeds capacity (at a more aggressive rate than anticipated)** | | |
| Industry emissions reduction (DER – solar and EVs, gas transition) | • Invest at rate required<br>• Defer investment<br>• Low voltage visibility<br>• Flexibility services<br>• Other demand side management, including supporting vulnerable consumers with: | • Efficient compensation for DPP3<br>• Wash up mechanism for WIP<br>• Reopener for Government policy<br>• Innovation allowances for flexibility payments<br>• Energy efficient and demand-side management scheme incorporating non- |

| Why elevated risk in DPP4 | How to reduce risk | Potential solution to better promote Part 4 |
|---|---|---|
| | ○ traditional measures like insulation, smart plugs, awareness); and<br>○ DER capability (batteries to charge off peak etc.) | traditional and traditional solutions that can help reduce price shocks from electricity prices including optimising Time of Use<br>• Quality incentive adjustment that correlates to lack of funding (accepts price/quality trade off is not on a least cost life-cycle basis) |
| **Inability to maintain the condition of the network on a 'least cost life-cycle basis'** | | |
| • Direct correlation to demand exceeding capacity<br>• Funds may be reassigned from life cycle maintenance to growth and new connections due to funding constraints | • Monitor condition of assets<br>• Investigate the impact of underinvestment on asset health and the network quality impact (to assess impact of options on investment on a 'least cost life-cycle basis') | • Efficient compensation for DPP3<br>• Wash up mechanism for WIP<br>• System growth reopener (cannot respond to widespread challenges for non-exempt EDBs)<br>• CPP (cannot respond to widespread challenges for non-exempt EDBs)<br>• Quality incentive adjustment that correlates to lack of funding |
| **High demand for contracting and operational workforce** | | |
| • Contracting workforce: attractive packages from international competitors; and very high training needs for the long-term creating higher sector specific LCI.<br>• Operational EDB workforce: higher sector specific LCI. | • Increased costs of labour:<br>○ Salaries; and training<br>• Contract less work (given cost constraints) | • Sector specific LCI forecast<br>• Certainty of adequate allowances to lock in additional workforce<br>• Minimise vulnerabilities to other cost impacts:<br>○ reopener for Government policy (opex and capex); and<br>○ reduce opex pressure by better scaling |
| **Whole-of-energy system solutions that will improve price and quality for consumers** | | |
| • Government policy; or<br>• Amended legislation i.e. renewable energy zones' | • Sufficient cashflow to fund required investment<br>• Defer investment | • Reopener for Government policy (cannot respond to widespread challenges for non-exempt EDBs)<br>• Energy efficient and demand-side management scheme<br>• Financeability cross check |

**Consultation questions**

Our answers in **Appendix One** reflect Unison's DPP3 experience, DPP4 work programme, and perspective as a larger and diverse EDB, with dispersed networks in three regions. We support the submission of Electricity Networks Aotearoa (**ENA**) and refer to their answers to the consultation questions with no response. This submission is intended to be read by the Commission alongside Unison's response to the s 53ZD Notice (which will be submitted on 21 December 2023).

**The utility of catastrophic event provisions**

As a final reflection on DPP3, Unison has suffered from the inadequate catastrophic event provisions that have been cumbersome and uncertain in the wake of Cyclone Gabrielle. The IM Decisions improve the materiality threshold by using a simpler monetary threshold. However, the provisions as they may be interpreted by the Commission, do not appear to achieve the policy intent - to put a prudent EDB back in the position it would have been in before the catastrophic event (except for the impact of unrecovered revenue because of reduced demand).

In determining acceptable levels of risk, non-exempt EDBs rely on the certainty the catastrophic event provisions otherwise provide, including when considering efficient levels of insurance. The Commission should move to minimise adverse impacts on EDBs of provisions that are proving inadequate - both by adopting a purposive interpretation in DPP3 and restoring certainty in their utility for DPP4 by careful amendment to promote their intent.

There is no confidential content in this submission, and we acknowledge it will be published on the Commission's website.

Nāku noa, nā

Rachael Balasingam
**REGULATORY MANAGER**
[redacted]

**Appendix One: Summary of consultation questions**

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| **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.**<br><br>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:**

**Rebalance in the long-term interests of consumers with significant starting price increases**

Yes, to a large degree, but it does not address the significant under compensation of non-exempt EDBs through DPP3. The fact that EDBs moved from DPP2, to an abnormally low DPP3 revenue path, has worsened the impact of a period of high inflation and growth and significantly increased regulatory uncertainty. To mitigate poor outcomes, it is essential that there are significant starting price increases to restore cashflows and certainty through the next period, consistent with providing incentives to invest in electricity distribution infrastructure. A continued 10% cap on revenue increase (the 'revenue movement cap') will not rebalance the potential inequity for consumers over time. It risks undermining investment on a 'least cost life-cycle basis', preventing innovation, and creating an industry wide issue of 'undue financial hardship'.

Non-exempt EDBs step into DPP4 with unprecedented levels of debt (and high debt costs) despite prudent business decisions that factor in IRIS penalties. Prudent decisions for EDBs also must consider their social license to operate and changing risk profiles as global and national factors influence likelihood and consequence.

**Customer work will influence EDB investment decisions**

Over DPP3, Unison has maintained a balanced capital contributions policy that tops up for the line charge revenue that Unison will expect to earn over the life of the assets - which is NPV neutral, consistent with FCM, and equitable. In FYs 21-23, Unison has financed approximately the same value of consumer connection and asset relocation work as customers' capital contributions.

In DPP4, Unison will experience even more large point connections than previously with the primary drivers being increased capacity to meet demand and decarbonisation. This will be coupled with growing demand at residential ICPs. Unison proactively manages its relationships with industrial and commercial customers, giving it additional confidence in its work programmes. The s 53ZD response steps through the methodology and assumptions for Unison's increased forecast of customer work.

Continuing the existing balanced capital contributions policy (consistent with the Electricity Authority's pricing principles) requires material increases in funding. We also have a consolidated contracting arm, and our forecast work programme has factored in deliverability based on their capability.

**Unison's deliverability relies on efficient compensation for DPP3 and improvements in DPP4**

The figures below show that EDBs have had to consistently exceed their DPP3 opex allowances to prudently deliver electricity lines services consistent with the long-term interests of their consumers. Within DPP3, non-exempt EDBs have then *only* been able to operate prudently, by exceeding their opex allowances, despite the substantial IRIS penalties incurred.

The under-compensation of non-exempt EDBs is illustrated clearly by graphs below showing:

- Figures 1 and 2: total opex allowances and exceedance over DPP3, including as a percentage of the opex allowance; and
- Figures 3 and 4: non-exempt EDB revenue cap wash-up amounts recorded in FY21, 22 and 23 of DPP3, and as a percentage of total lines charge revenue.

The changes in opex during DPP3 are significantly contributed to by: insurance, IT systems, cybersecurity, wage inflation, vegetation management, traffic management and health and safety requirements. Unison's response to the s 53ZD Notice provides more detail about these increases.

Opex exceedances are subject to IRIS penalties, which will flow into reduced revenues in DPP4 due to the five-year retention period. Despite our best efforts to manage our opex, we and other non-exempt EDBs have not been able to manage within the regulatory allowances. The cost is borne in the short term by EDBs, and in the longer term by consumers, which leads to the target sharing outcomes, but also exacerbates short term cashflow constraints for EDBs.

The industry opex picture and wash-up balance to FY23 demonstrate the impact of growing under compensation of EDBs in DPP3 and increased complexity and input cost pressure facing EDBs, which were not provided for.

We also note that by deferring such substantial revenues into later years, the DPP3 revenue cap benefits current customers, but penalises future customers. This is inequitable.

The regime must **rebalance to return the efficient costs of business in DPP3 and provide improved cashflows for DPP4**. Otherwise, there will be an increase in non-exempt EDBs trying to grapple with an irresolvable tension between:

- minimising price shocks to consumers and undue financial hardship;
- supporting customer work by maintaining balanced customer contributions policies; and
- investment at the pace and scale required to keep up with large point connections / system growth while maintaining quality including through the electrification of transport, process heat and the transport sectors (impacting residential, industrial and commercial demand).

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***Industry opex picture***

**Figure 1: Total non-exempt EDBs Opex allowances vs opex actual and forecasts DPP3**

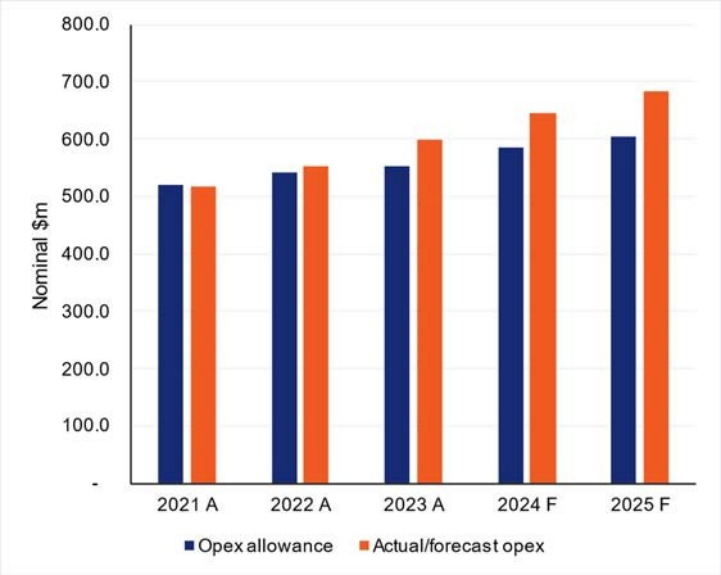
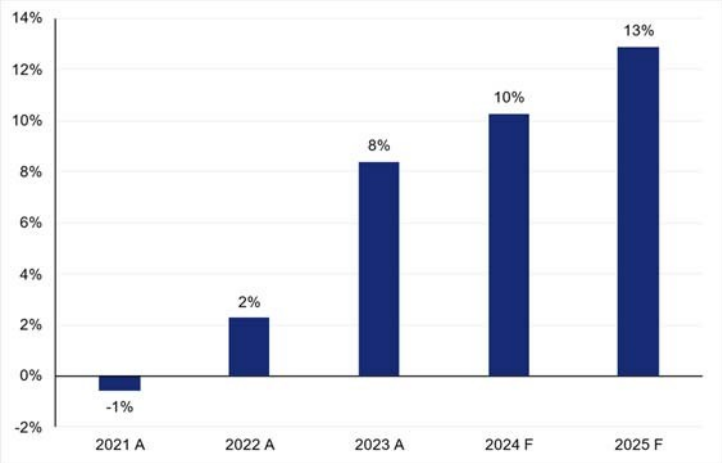



**Figure 2: Total non-exempt EDBs Overrun as a percentage of opex allowance DPP3**




***Industry wash ups DPP3 to FY23***

**Figure 3: Total non-exempt wash-up amounts**

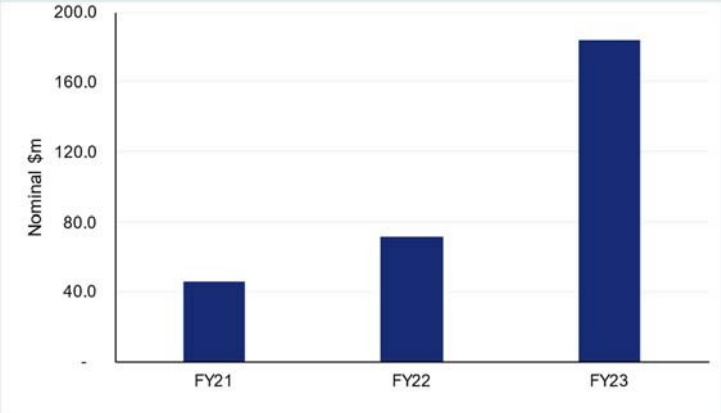


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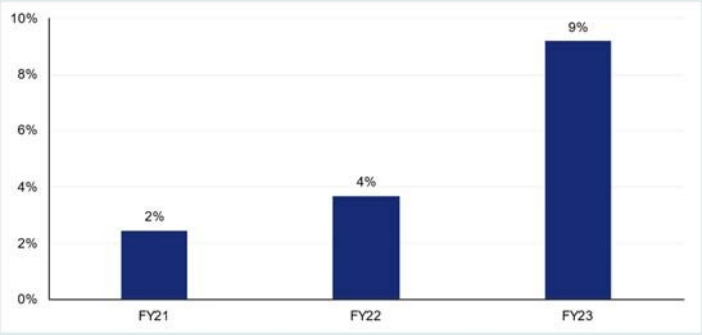
**Figure 3: Total non-exempt wash-up as a percentage of total lines charge revenue**




**Chapter 3 – Forecasting capital expenditure**

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| **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.**<br><br>Do you have any particular concerns or issues with our proposed approach? If so, how could these concerns or issues be resolved?<br><br>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:**

**Forecast data is more appropriate than historical expenditure**

We support the proposal to use EDB forecasts to establish DPP4 capex allowances. We consider that our forecasting approach is robust, and suitable for this purpose, including the forecast of capital contributions.

In Unison's submission on forecasting expenditure dated 16 December 2022, its method of scenario planning was explained which embeds a robust set of assumptions and data; and relies on international standards (ISO) to develop fit-for-purpose planning processes and tools.[4] This is also discussed in the Unison submission on the IM Draft Decisions and as part of the 2023-33 AMP review process.[5]

Data and digitalisation will support developing better planning tools that reduce uncertainty to prudently manage assets, including through DPP4. Unison has two projects in progress to create more certainty for network planning. The first is a model that projects asset health over the remaining life on an asset, based on maintenance (and expenditure) programmes. The second is a network planning programme to build capability and update the existing planning process to consider uncertainty associated with technology uptake and change in demand in the medium to long term. With sufficient funding, EDBs will continue to innovate including to improve forecasting.

**Policy settings influence our forecasts**

The IM Decisions have not included a policy reopener to respond to Government policy changes that materially impact on EDBs. The Commission must consider the changes to Government policy

[4] https://comcom.govt.nz/_data/assets/pdf_file/0020/314444/Unison-Networks-Submission-on-Expenditure-Forecasting-Workshop-16-December-2022.pdf.
[5] https://comcom.govt.nz/_data/assets/pdf_file/0018/323811/Unison-Submission-on-IM-Review-2023-Draft-Decisions-19-July-2023.pdf.

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as confirmed on filing of the s 53ZD request (or as updated in final AMPs in March 2024), in particular:

- 10,000 EV chargers installed in New Zealand by 2030;
- reducing the GIDI fund; and
- increasing renewable energy generation.

**Reliance on reopeners**

Reopeners are an imperfect solution to addressing abnormal capex and opex requirements within a regulatory period. We have concerns about whether the regulatory approval process will be timely enough to accommodate all individual reopener applications (noting the requirement to apply before assets are commissioned constrains the timing of applications).

**CPPs are not an answer to industry wide problems**

We do not accept that a CPP is an answer to all supplier problems as it comes at a substantial cost to EDBs (that is not all recovered in prices), is inherently uncertain (as subject to the Commission's discretion) and cannot resolve an industry wide problem. A CPP requires:

- available cash-flow to finance without certainty of the timing or revenue entitlement that may result, but in any event, a few years of delay to receive the benefits;
- substantial EDB resourcing where retention and recruitment are already challenging (noting that provincial EDBs may not have the corporate workforce readily available;
- consumers to engage and support it; and
- substantial Commission resourcing, with a statutory prioritisation method and limit (four annually) invokable by the Commission – enabling the Commission to 'push-off' CPP applications to later in the DPP4 irrespective of the impact on the EDB (for example, an EDB experiencing or on the cusp of undue financial hardship). In that scenario, EDBs have no recourse to alleviate short-term pain that will have long-term consequences contrary to Part 4.

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| **3** | **We are proposing to apply the capital goods price index to forecast capex allocations.**<br><br>Is there a more appropriate index which could be applied; and, if so, why? | 27 |

**3 Response:**

The forecast index should reflect the particular pressures which the electricity transmission and distribution market in New Zealand is facing, reflecting:

- increasing global demand for electricity network components, labour and expertise;
- small market disadvantage in accessing T&D components at competitive rates; and
- increasing compliance costs, such as traffic management, planning approval, health and safety.

An economy wide CGPI forecast is unlikely to reflect these sector specific circumstances, and like capex (as stated above), the past is unlikely to be a good predictor of the future.

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| 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.**<br><br>How should our capex forecast consider potential sector-wide deliverability constraints? | 27 |

**4 Response:**

**The Commission will dictate deliverability**

The Commission should not make judgements about the ability of individual EDBs to deliver their forecast AMPs in a DPP setting. DPPs do not involve approval of a work programme, rather expenditure envelopes for opex and capex are included in forecast building blocks, based on a top-down approach, common to all non-exempt EDBs. Within that envelope, EDBs are free to allocate funds as required, and to respond to events that emerge during the regulatory period.

The quality path provides mitigation for underinvestment in network performance, and EDBs must meet customer demand for electricity distribution services – including capacity, connection, and transportation – which is a primary driver of delivering expenditure plans. Each EDB is responsible for maintaining services and executing planned work programmes. It is not the Commission's place to pre-judge their ability to do that using an assessment of sector wide deliverability challenges, as suggested in Attachment E.

Section 5Q of the Climate Change Response Act 2002 is relevant to deliverability.[6] There will be a circular impact if the Commission constrains opex and / or capex allowances because it is concerned about deliverability. That lack of funding will create the major constraint and prevent EDBs from delivering the infrastructure required to reach the net-zero target.

Providing sufficient recovery for the under compensation of EDBs in DPP3, through significant starting price increases and a fair annual increase cap will considerably alleviate the adverse longer-term impacts of under investment. Re-balancing settings to ensure deliverability of capex work programmes also requires adequate opex allowances, and efficient recovery of costs to reduce cash-flow constraints. Unison supports a capex scaling factor for non-network opex and crucially more accurate scaling of the costs of insurance.

Without adequate opex, EDBs will not be able to support the growing business services that will deliver the greatest long-term benefits to consumers, for example:

- greater commercial projects and negotiations;
- resourcing sophisticated IT development and support;
- increasing controls to address increasing risks, greater engagement with consumers and retailers;
- higher insurance costs;
- obtaining, storing and analysing data to understand and predict patterns;
- robust network planning processes including engagement with councils and stakeholders to support efficient network planning outcomes (including making the most of existing capacity); and
- innovation and non-traditional solutions (while the IMs seek to improve provision for innovation and non-traditional opex solutions, allowances are subject to Commission

[6] Pursuant to the Commission's ability to use the permissive power in s 5ZN of that Act as it said it "may" in the IM Review process.

discretion and there needs to be some room in opex allowances to encourage it without the risk of rejection).

**Unison is confident it can deliver its work programme, with efficient recovery of DPP3 costs, reliance on capex forecasts for DPP4 allowances, and fit-for-purpose opex scaling**

The main challenges are: supply chain reliability and longer lead times, accessing the required contracting workforce, greater opex requirements to administrate, plan, and advise on larger work programmes, and financing needs to facilitate the work (including greater Work in Progress (**WIP**)). Unison's expenditure forecasting is helpfully aligned to the forecast deliverability of its contracting arm (reducing the risk of a capability constraint).

***Supply chain and WIP***

Unison has had higher than previous WIP balances in DPP3. This has grown with supply chain challenges, longer-lead times, and higher work programmes. As Wellington Electricity emphasised in their submission on the Draft IM Decisions, work programmes do not start and stop with the regulatory period. DPP4 needs to respond to the needs of businesses in growth.

To be more consistent with financial capital maintenance, a wash-up accrual to adjust for WIP at the end of each regulatory period is required. Otherwise, that capex is not recovered for five more years. These amounts are becoming more material now that capex is increasing, increasing the adverse impacts on an EDB of having to fund that debt over a longer term.

***Contracting services***

Unison Networks Limited notionally consolidates its contracting arm, Unison Contracting Services Limited (**UCSL**). Subsequently, it understands the capability of its contracting workforce. Like all contractors in the energy sector, in DPP3, UCSL has experienced a higher-than-normal turnover rate as employees follow large salaries in Australia and elsewhere. UCSL has invested in capability and recruitment to offset labour market challenges.

With certainty about funding forecast work programmes, Unison can proceed with confidence to 'lock in' its contracting workforce, including tendering for external providers if there are constraints. The first step, however, is regulatory certainty.

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| **5** | **We will be using the s 53ZD notice to collect information about how EDBs have reflected resilience in their expenditure forecasts.**<br><br>What engagement have EDBs had with consumers about resilience expectations, especially as it relates to significant step changes in forecast expenditure?<br><br>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:**

The Commission needs to obtain more information (either independently or from the industry) about the increasing risk profiles that justifiably drive higher network and non-network opex; and are critical to network resilience.

**Resilience requires network and non-network opex allowances to reduce risk**

*Network opex - vegetation management*

EDBs will not implement mature risk and assurance practices without funding to reduce risk.

There is robust industry data about the substantial impact of fall distance zone trees on EDBs networks, including in Cyclone Gabrielle. Unison supplied recent data about the contribution of fall

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distance zone trees (and growth limit zone) in respect of total FY2022/23 outages in the Targeted Information Disclosure consultation.[7] The risks caused by vegetation are both quality (causing outages), network damage (causing costs of rectification to be covered by the EDB or insurance), and risks to others (including caused by fire). Traffic management costs due to amended legislation are a significant inflator of this year's associated costs, and forecasts.

The risk presented by severe weather events is not limited to asset damage and outages,[8] but includes other increased risk profiles when considering probability and consequence (i.e. drought and fire).

*Non-network opex – Insurance and cybersecurity*

The resilience of an EDB to literally weather a storm without significant consumer cost (and price 'shocks') may rely on establishing an efficient level of insurance. That is discussed below. Increasing cybersecurity risks are not discretionary costs for EDBs, and as global factors increase that risk, EDBs must adequately respond.

**'Resilience' work programmes**

Unison's forecasting does not include substantial individual resilience capex projects (in addition to the three substations rebuilds following the destruction of Cyclone Gabrielle). Unison's resilience work is predominately built in as a component of carrying out other individual work projects.

Investment on a 'least cost life-cycle basis' will be undermined if allowances inadequately fund expected new work, such that asset renewal and replacement programmes, and maintenance, are continuously re-prioritised. That outcome will shorten asset lives, progressively reducing quality of service for consumers, and will cost substantially more over the life of the asset fleet.

**Customer survey**

Following Cyclone Gabrielle, Unison undertook a survey to understand the high-level perspectives of its Hawke's Bay communities. There was general acceptance of additional investment required to make networks more resilient (the survey results are included in the s 53ZD response).

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| **6** | **We would like to understand how potential changes in capital contributions policies could be accommodated in DPP4.**<br><br>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:**

We appreciate that potential changes in policies may impact the allocation of expenditure as intended by the price-path set. Capital contribution policies already must be disclosed on EDB websites – giving the Commission, Electricity Authority, and customers visibility. We encourage the Commission to start with a light-handed approach given the real risk may be low. An appropriate starting point is to:

- review the annual disclosure requirements and how to ensure the greatest transparency over information already provided (to illustrate the application of the EDBs policy); and
- scrutinise capital contribution forecasts.

[7] https://comcom.govt.nz/ data/assets/pdf_file/0029/328925/APPENDIX-ONE-Unison-and-Centralines-Submission-on-Target-ID-Review-2024-draft-decision-reasons-paper-for-EDBs-14-Sept-2023.pdf.

[8] For example, Fire Emergency New Zealand procedure to shut off auto-reclose, and other fire risk mitigations impacting adversely on quality performance.

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| | This is consistent with the low-cost approach to setting DPPs and is appropriate as capital contributions are directly aligned to planned capex programmes. It should be straight forward to cross check forecasts against disclosed capital contribution policies.<br><br>If there are changes to the Code which require changes to EDB capital contribution policies, the DPP can be reopened. | |
| 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.**<br><br>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?<br><br>On what basis are these investments being assessed? | 27 |

**7 Response:**

Unison's measured forecasting approach was explained to the Commission in December 2022 and assessed through the Commission's independent review of the 2023-33 (Regulatory) Asset Management Plan.[9]

It implements a 'least cost life cycle basis' which we define as the lowest cost over the life of the asset (including a consideration of the cost of replacing now vs. replacing later).

However, the circumstances of DPP3 (developing and shifting policy and regulatory priorities) illustrate the many external factors outside of EDBs control that may change demand profiles, and the costs of solutions. For example, Government and regulatory priorities, climate change advice, movements in the energy sector, changes in key industries (electrifying transport, process heat conversions and organic growth). More sophisticated LV visibility will improve the predictability of behaviour for EDBs. Significant vulnerabilities remain, including:

- Government policy changes, which the IM Decisions have not mitigated with a reopener, in particular EV charging 'hubs' and changes in consumer behaviour that can result from subsidies or other incentives;
- insufficient opex allowances to:
    - drive large work programmes or substantial regulatory demands, with subsequently increased business support needs; and
    - prudently reduce increasing external risks (through insurance and cybersecurity);
- access to sufficient and reasonably priced metering data that is able to inform network decisions;
- comparing new and uncertain services (like flexibility services) against known capex solutions; and
- accessing enough debt.

When cash flow is constrained, there is the potential for trade-offs about how to allocate scarce funds. This may mean that a lowest lifetime solution (such as a significant capacity upgrade), may be deferred in place of a shorter-term solution, with lower initial investment, but higher lifetime costs.

[9] Unison refers to its AMP as the Regulatory Asset Management Plan.

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| | ***EDBs remain vulnerable to policy*** | |
| | We encourage the Commission to consider vulnerabilities and evaluate how those risks are minimised in DPP4 to provide the best long-term outcomes for consumers. Proportionate scrutiny under the DPP must consider broader influences and controls on EDBs (for example, the constrained insurance market, transparency through Information Disclosures, Electricity Authority oversight).<br><br>Policy proposals that could have significant implications for EDBs investment profiles, including on a least cost life-cycle basis are:<br>• facilitating the Government target of 10,000 commercial EV chargers available around New Zealand before 2030 (and the impact of large-point connections);<br>• reforming the Civil Defence and Emergency Management Act, and obligations of critical infrastructure resilience (with significantly raised obligations, including planned levels of service, for critical infrastructure services) – this may not be solely implemented through legislative change;<br>• increase in renewable energy generation (depending on how that is implemented); and<br>• amending capital contribution policies.<br><br>Unison's forecasting therefore relies on adequate reopener mechanisms to alleviate risks to its planning on a least cost life-cycle basis for DPP4 (including the opex flexibility to minimise increasing risks that are outside of its control). | |
| | **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.**<br><br>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.)<br><br>If so, what evidence supports this view? | 34 |
| | **8 Response:**<br><br>The Commission should investigate the accuracy of using industry specific LCI (transmission and distribution) to reflect the increasing challenges to retain workforce. A transformative sector will likely drive sector specific labour outcomes, including higher levels of training, greater retention difficulty with attractive competing international markets, and greater competitiveness within the growing industry. | |
| **9** | **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.**<br><br>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?<br><br>Are there alternative drivers that we should consider, and what evidence is there that they can meaningfully predict EDB scale growth? | 34 |

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| **9 Response:** | | |
| Yes, different scale growth trend factors are appropriate. Further work with the industry would achieve better outcomes in the Draft DPP Decision. We discuss increasing risk profiles above. As proven by consistent increases of opex allowances in DPP3 (above the rate of inflation), the regime must better fund EDBs to adequately mitigate increasing risks created by external factors in DPP4. Given the high debt requirements which emerged during DPP3 due to uncontrollable cost increases and the overly restrictive revenue cap settings, EDBs cannot continue to fund cost overruns and suffer IRIS penalties as a result. The current situation, with significant deferred revenue recovery, and abnormally high levels of external borrowing are a function of the regime failing to promote Part 4 by being unresponsive to the external environment and predicated on historical settings and perceived certainty.<br><br>The energy transition will result in customers using more electricity as they substitute electricity for other energy sources to reduce carbon emissions. This places extra demand on electricity distributors to maintain services and increase capacity. This activity will be reflected in more customer enquiries, refined asset management programmes, increased network operating complexity, and investments in capacity. Currently the opex scale factors of circuit kms and connections appear to understate the drivers of opex growth, based on historical data. We support the proposal to add capex into the mix, as an improvement, but it will not alone make a significant difference. Capacity is likely a better indicator of unexplained non-network opex in the current model. | | |
| **10** | **EDBs have identified that insurance costs have been increasing at a greater rate than other costs they face.**<br><br>What evidence do you have about how these costs are likely to evolve over time?<br><br>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? | 34 |
| **10 Response:** | | |
| Unison supports a pass-through or allowance mechanism to allocate the risk of insurance increases to the consumer, given it is outside of the control of EDBs and significantly benefits the consumer.<br><br>Unison provided evidence of the forecast insurance step change with its s 53ZD response. We support a specific scale factor that represents forecast price increases, that may need to be regional.<br><br>The Commission will appreciate that continuous increases in insurance reflect uplifts in the:<br><br>• asset values – which increases with the asset base insured (as EDBs RABs grow so does their insurance); and<br><br>• rate, which reflects the insurers price for risk.<br><br>There is a significant regional factor in New Zealand, and Cyclone Gabrielle has impacted Unison's premium. With the asset values and rate increased, Unison's forecast insurance is to materially increase between 2024 and 2029.<br><br>We encourage the Commission to evaluate EDBs insurance costs over DPP3 and the impact on overall opex exceedance (after inflation). The efforts of EDBs to control opex below the step change in insurance costs is likely evident, alongside a correlation between accepted IRIS penalties for continuing to insure assets because that is in the long-term interests of consumers | | |

(the IRIS creates a secondary cost above the premium because of under-recovery of that cost and penalty).

The insurance market for EDBs is very tight creating a low-risk that EDBs would be able to access or encouraged to accept 'inefficient' levels of insurance. Board Directors are also highly involved in insurance decisions generally balancing risk with sophisticated commercial knowledge, including of other markets.

***Setting an efficient level of insurance***

Unison implements sophisticated business practices to achieve efficient levels of insurance, including mitigating our increasing material damage insurance costs, including:

- no external insurance of our Transmission and Distribution assets, which make up a significant proportion of our overall asset values;
- Instead of full cover, we have assessed an optimal loss limit below the replacement value of our insured assets. Any loss that exceeds this loss limit is therefore not insured. This is a cost / risk trade-off which is common practice for infrastructure owners as it is prohibitively expensive to fully ensure large infrastructure asset bases. However, this does require maintaining prudent balance sheet headroom to enable us to respond in the event of a major event, such as Cyclone Gabrielle. This is especially relevant to EDBs as the regulatory regime generates perverse cash flow outcomes in response to a catastrophic event.
- We have a captive insurance subsidiary to provide limited cover for our T&D assets and enable direct access to the reinsurance markets should we choose.
- We undertake active marketing of our insurance programme, highlighting our excellent risk management practices.

Property insurance capacity is becoming increasingly difficult to access, and the increasing recognition by overseas reinsurers of the natural disaster risks in New Zealand. For some years insurers have been capping their exposure to NZ risks, in particular high natural hazard areas such as Wellington and Hawke's Bay. In this environment, the first consideration is simply to find sufficient capacity to place the insurance. This limited market is unlikely to get any easier. Unfairly low recovery for rising insurance costs will incentivise EDBs to progressively reduce their insurance cover. Ultimately the consumers of the day will bear this risk in the event of a major natural disaster.

Finally, interest rates are also a key driver of insurance market capacity. In the "lower for longer" period when interest rates were very low, new capacity (e.g. Berkshire Hathaway) entered the NZ insurance market and this helped to mitigate price increases. Following rapid increases in interest rates in recent years, the opposite effect is now in play, and capital is likely to be allocated away from insurance and into other asset classes. This makes it even more unlikely that the current hard market will ease in the foreseeable future. The Commission must also consider the potential harm of providing the wrong incentives for insurances. If all EDBs progressively reduce their insurance cover, there is a NZ Inc impact. Risk will be concentrated in New Zealand rather than spread across international counterparties using appropriate risk transfer products. As experienced on the back of Cyclone Gabrielle, the Government may become the insurer of last resort by default.

The Commission could reward sophisticated insurance practices and encourage more innovation and knowledge sharing in this area.

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| 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.**<br><br>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:**

A workshop about step changes, the Commission's evaluation process, useful evidence to provide, and options to better forecast justified costs would assist.

The criteria (intentionally) do not respond to uncertainty, and as evident in DPP3, this makes EDBs disproportionately vulnerable to IRIS penalties for prudent and efficient business operations. The timing of the s 53ZD Notice has impacted on EDB's ability to collate data for this submission, and the cross submission process may prove useful for further data.

Information technology is a complex area that EDBs will respond to at different rates. It is becoming increasingly externally driven by:

- policy, legislation, or regulation;
- market changes or vendor requirements, such as transitioning to the Cloud;
- growing external risks like cybersecurity; and
- data and digitalisation.

In DPP3, Unison has experienced the substantial investment in products, support, and skill, required to progress rapid and substantial change in its information management systems. Because of rapid advancement and growing risks, IT costs continue to grow to fit new expectations and evolving risks (including due to global factors). This does not fit within the step change criteria but is material to the price-path. While the base-step-trend will capture some of the increasing opex needs, what is left to EDBs to fund, without the cashflows to, is the actual increase in external risks that influence prudent business decisions. Global tension, advancing technology, external markets all influence the risk profiles EDBs are willing to accept, and prudent response requires increased opex in the form of: cybersecurity, sophisticated IT systems, and insurance (as explained in response to Q10).

**Chapter 3 – Quality standards**

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| 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.**<br><br>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 |

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| **12 Response:** | | |
| The integrity of s 52A rests with a balanced price-quality outcome. Without adequate cashflows, there will be an impact on EDBs ability to make decisions on a least cost life-cycle basis implement (which will shorten the life of and make more expensive, assets over their lives, and steadily degrade quality outcomes).<br><br>We support the principle of no material deterioration for setting quality standards, however, there should be a process to consider a proportionate reduction of quality standards to match a subsequent expenditure constraint, and adjusted work programme, created by low starting prices, revenue smoothing and alternate rates of change to minimise price shocks. At the end of the third year of DPP3, EDBs have not been fully compensated for the services they have delivered to customers as illustrated in response to Q1 above. This under-compensation is projected to grow by the end of the DPP3 regulatory period. This is not an individual EDB issue, but rather a problem with the current DPP settings which apply to all EDBs. Accordingly, CPPs are not an appropriate remedy.<br><br>Non-exempt EDBs should be able to evaluate the benefits of a CPP against the potential to make greater progress for their consumers under the DPP with a quality incentive adjustment justified by what has not been funded. | | |
| **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.**<br><br>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:** | | |
| The Commission needs to workshop with industry the best approach given the different types and forms of data available over the 10-year reference period. Options include using shorter periods of more accurate historical data or scientific forecasts for severe weather events, including drought, for major event days (rather than historical). Broader implications of foreseeable events such as Fire Emergency New Zealand (FENZ) procedures such as shutting off auto-reclose through a high-risk fire period are relevant (given it decreases network reliability). | | |
| **14** | **Our initial view is step changes in reliability, if appropriate, may be accommodated through setting of values or revisions to definitions.**<br><br>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?<br><br>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:** | | |
| A consistent approach to reporting multi-count data will require system changes and EDBs need adequate understanding of the approach to build that reporting capability. This can be workshopped alongside the 10-year reference period. | | |

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| 15 | **Our initial view is to not introduce new additional quality of service measures.**<br><br>Are there any other quality of service measures beyond those currently required within DPP3 that we should consider introducing, and why? | 38 |
| **15 Response:**<br><br>See response to Questions 12 above and 24 below. | | |
| **Chapter 3 – Other issues** | | |
| 16 | **Aurora Energy is scheduled to rejoin the DPP from 1 April 2026.**<br><br>Do you agree with how we propose to transition Aurora Energy to the DPP in 2026? | 40 |
| **16 Response:**<br><br>Aurora Energy is best placed to comment on their end of CPP transition,<br><br>However, there needs to be more certainty about the transition between CPPs and DPPs. DPP4 is an opportunity to improve certainty for all non-exempt EDBs. This is particularly important at this time given the increases in forecast expenditure, and the expectation that some EDBs will need CPPs to be able to fund significant expenditure increases.<br><br>The Commission should publish a framework for transitioning from CPPs to DPPs which EDBs could consider when preparing a CPP proposal. This could include alignment, or otherwise, with standard DPP processes, timing and approach, EDB specific considerations, and criteria to be applied when assessing expenditure allowances, incentives and quality standards. Also, more clarity could be provided on the different processes that can be expected for CPPs which end early or later in a DPP period. | | |
| 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.**<br><br>What particular challenges do you perceive may arise from shortening the regulatory period?<br><br>What are the potential benefits to consumers from maintaining or shortening the length of the regulatory period? | 40 |
| **17 Response:**<br><br>The IM Review and DPP reset are administratively burdensome and expensive processes for EDBs and the Commission. This will impact on capacity to complete large work programmes through a period requiring innovation and agility to respond to rapid growth.<br><br>Time and money would be better spent getting the work done with proportionate and agile regulation. The additional cost required to deliver a shortened four-year regulatory period is relevant to the s 53K purpose and adopting a "relatively low-cost way of setting price-quality paths…". | | |

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| 18 | **The DPP sets annual deadlines by which suppliers must make Customised Price-Quality Path (CPP) applications to enter into effect the following year.**<br><br>Do you support retaining a similar approach to setting CPP application windows as was undertaken for DPP3? | 41 |
| **18 Response:**<br><br>- | | |
| 19 | **The current IMs provide for a discretionary shortening of asset lives.**<br><br>Do you have views on the framework for assessing accelerated depreciation applications? | 41 |
| **19 Response:**<br><br>- | | |
| **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.**<br><br>Are EDBs considering the quality incentive scheme (QIS) in their investment decisions?<br><br>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:**<br><br>In a steady state environment, the QIS incentivises improvements in quality while penalising reductions. The effectiveness of the regime, however, at a time of growth, increasing climate risk to fixed infrastructure, and uncertainty is reliant on access to adequate funding to resolve issues, including:<br><br>• maintenance budgets that will not be consistently compromised as opex pressures increase; and<br><br>• flexibility and other methods to achieve innovation and non-traditional solutions.<br><br>The QIS should be agile to respond to the potential:<br><br>• EDBs are not funded to deliver their 2024 asset management plans; and<br><br>• CPP and reopener mechanisms cannot respond to impacts on EDB quality in a timely way. | | |
| 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.**<br><br>How should we account for non-performance of non-network solutions (regulatory sandboxing)? | 46 |

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| **21 Response:** | | |
| We support regulatory sandboxing for initiatives categorised an innovative or non-traditional solutions, including which invest in energy efficiency or demand side management. For example, providing flexibility to:<br>• collaborate with other parties implementing initiatives, including to address energy hardship and resilience (i.e. investing with others in flexibility and DER);<br>• implement innovation without a penalty for failure (which at the very least will deter future innovation); and<br>• access or use data in different ways to improve efficiency or reduce demand on the network.<br>While performance will be monitored and reported on (which could assist the industry broadly), it should be removed from aggregated data sets and penalties should be removed. | | |
| **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.**<br>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?<br>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:** | | |
| This is a necessary component of DPP4 and we strongly support a workshop to ensure the Commission is adequately informed through its development. The ENA suggest sensible topics. | | |
| **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.**<br>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?<br>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?<br>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:** | | |
| We discuss below the wide net that should be cast to incentivise energy efficient and demand side management solutions, including innovative, non-traditional, and traditional initiatives. This could translate into criteria that consider the impact of a scheme on minimising price shocks of electricity prices, for example, if the solution maximises consumer access to non-peak electricity prices (for example, residential DER batteries) – including as influenced by EDB Time of Use pricing. This is discussed further below. | | |

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| **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.**<br><br>Is there a basis for strengthening the incentives for energy efficiency and demand-side management initiatives? | 49 |

**24 Response:**

We support incentives in investment in energy efficiency and demand side management and removing existing disincentives. It is fundamental to promoting Part 4 to have clear, effective mechanisms for non-exempt EDBs to optimise efficiency and demand side management outcomes for consumers.

An innovation allowance for flexibility payments may ameliorate existing disincentivises to invest in energy efficiency and demand side management solutions in the context of:

- forecasting for capex solutions, where there is certainty of cost on a least cost life-cycle basis; and
- forecasting for uncertain opex solutions such as procuring flexibility in an environment of underfunding for opex.

The external pressures on non-exempt EDBs are proven by consistent exceedances of allowances in DPP3 – at a cost of millions in IRIS penalties to EDBs. At a time of cash-flow constraints, raising debt levels for opex is unattractive, and impacts on debt availability for capex programmes. This is a clear disincentive on: achieving more energy efficient outcomes for New Zealand; and maximising the potential of demand side management in the long-term interests of consumers.

In this unprecedented context, a correlation in the Act is evident between the strength of:

- the tension addressed in s 53P(8)(a) – minimising price shocks to consumers and causing undue financial hardship to EDB (a strong tension in this reset); and
- implementing s 54Q and promoting incentives to invest in energy efficiency, demand side management and reducing energy loses (and avoiding or removing disincentives).

The Commission must seek to support EDBs to exercise control where they can and use targeted schemes to reduce adverse impacts on all consumers. In fact, it is hard to envisage a time where incentivising broad schemes to improve energy efficiency and optimise demand side management will be more justified or have more impact (noting the short-term challenges to achieve a 'just transition').

The innovation and non-traditional allowance can be used to promote flexibility, mitigating the impact the IMs and DPP may otherwise have to deter flexibility. The Commission can provide wider and more explicit incentives for energy efficiency and demand side management (or to make more fundamental changes to IRIS or funding methods to remove the disincentives) to ensure EDBs cast a wide net when considering solutions that will minimise adverse impacts on their consumers, including traditional solutions.

If the Commission does not envisage a 'wide net' of energy efficient and demand side management solutions under its innovation and non-traditional allowance definition and criteria, another scheme should consider how to capture foreseeable and traditional ways to minimise hardship of consumers and cost-efficiently relieve constraints on a network.

There are several paths opening to address poor outcomes for vulnerable communities and others as electricity prices rise. Solutions include:

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| | • community DER and battery schemes to stop consumers being reliant on the wholesale market, reduce peak demand on the network (including to optimise benefits from EDB Time of Use pricing), and provide resilience to severe weather events;<br>• previously implemented 'traditional' community schemes to insulate and educate to reduce demand with smart plugs to show the electricity used by household appliances;<br>• smart EV chargers and tools that control high-voltage demand;<br>• flexibility services to orchestrate demand to suit the circumstances of the network, including to provide resilience to shortages in electricity supply;<br>• taking customers off-grid where their resilience and quality may improve as a result;<br>• using more sustainable solutions for resilience or safety reasons (for example, using batteries instead of diesel generators); and<br>• prioritise asset location consistent with benefits to the whole-of-energy system, such as in 'renewable energy zones' (where generation, transmission and distribution assets are located to minimise investment and maximise consumer benefits). | |
| **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.**<br>Do you agree with our approach to not introduce a specific QIS related to reducing energy losses? | 49 |
| **25 Response:**<br>Yes, LV visibility is an appropriate step toward EDBs gaining more understanding of the issues and causes to improve outcomes for consumers. The Commission could look at how an incentive scheme could promote efficient location of distribution assets with transmission and /or generation (like 'renewable energy zones'). | | |
| **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).**<br>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:**<br>We support a default 0% factor and it remains appropriate, strengthened by the challenging context of the DPP4 reset. | | |
| **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.**<br>Do you agree with this approach? If not, are there other alternatives we should consider?<br>When applying this (or any other) analysis, what factors should we consider in determining whether a price change amounts to a price shock? | 54 |

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| **27 Response:** | | |
| **Revenue shock is not price shock.** Comparisons of revenue between one year and the next overstates the impact on consumer prices because it does not take into consideration growth in connections and consumption. Price movements should be presented on a per connection, or per kWh basis. | | |
| ***Consistently apply s 53(8)(a)*** | | |
| As addressed above, a price 'shock' to consumers must be viewed in the same way as the Commission's high threshold for undue financial hardship of EDBs, especially between regulatory periods. | | |
| The regime is premised on EDBs experiencing high inflation, wash-up balances, and the application of the principle of Financial Capital Maintenance. The IMs and DPP settings are time-bound enabling better promotion of Part 4 in different contexts. Constraining EDBs to levels of return set by DPP3 would undermine the purpose of the DPP regulatory period and ability for the Commission to reset periodically. We note the impact between DPP2 and DPP3 of EDB lines charges decreasing materially due to technical consequences of regulatory decisions. We are not aware of the Commission considering s 53P(8)(a) carefully in respect of undue financial hardship of EDBs at that reset and taking a long-term view of constraining cashflows (acknowledging tensions with preventing excessive profits). | | |
| ***Encourage control when assessing a price 'shock' to consumers*** | | |
| The regime should maximise opportunities for EDBs and consumers to control demand and minimise investment need. Incentives to invest or educate in smart charging or flexibility services can orchestrate optimal demand profiles to benefit everyone. | | |
| We acknowledge, using a 'normal' level of electricity, including at peak times, is not a choice as it is now essential to wellbeing. However, using highly increased levels due to newly electrified loads for EV charging, for example, is a choice. If the Commission intends to implement alternate rates of change to minimise price shocks to consumers, it will need to carefully assess the actual experience of consumers, considering their ability to control some electricity use and EDBs ability to send price signals. | | |
| **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? | 54 |
| | When applying this (or any other) analysis, what factors should we consider in determining whether a supplier faces undue financial hardship? | |
| **28 Response:** | | |
| We accept the threshold is high. The consideration, however, cannot be narrow. A long-term lens is required that acknowledges ongoing impacts of EDBs of experiencing or being on the cusp of undue financial hardship and the likelihood it will undermine decisions on a 'least cost life-cycle basis'. EDBs capital contributions policies are also relevant as maintaining historical levels of contributions will raise the risk of undue financial hardship with growing customer work. | | |
| Unison remains supportive of a financeability test and equity issuance test in the IM Decisions to better provide for EDBs interests as long-term infrastructure owners. Applying an alternate rate of change to minimise price shocks to consumers, without adequate protection against undue financial hardship, is where the DPP4 decision risks inconsistency with an ex-ante expectation of earning normal returns, consistent with the Commission's economic framework for Part 4. This | | |

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| would occur where non-exempt EDBs are unable to achieve borrowing costs consistent with the cost of debt allowance in the WACC due to insufficient cash flows. If EDBs are unable to meet debt covenants, their cost of borrowing may increase above the benchmark level. This would be contrary to the s 52A objective of providing incentives to invest.<br><br>The Commission must consider that there is an impact of unduly constraining EDBs finances because of delayed recovery of efficient costs. That will result in one ownership model to support long-term infrastructure in Aotearoa, which is not supported by the application of FCM or otherwise promoted by Part 4. | | |
| **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.**<br><br>What models or data inputs could be provided by EDBs which would improve our approach to modelling consumer bill impact? | 58 |
| **29 Response:**<br><br>We support more granular consideration of real price impacts on consumers. A workshop with experts from the industry, or independent advice, would be beneficial to this complex consideration.<br><br>We acknowledge that consumer bills for electricity distribution services will need to increase significantly to reflect the DPP4 cost base, due to factors which are largely outside non-exempt EDBs control. Each non-exempt EDB will develop line charges during DPP4 consistent with their pricing methodologies. Any pricing impact analysis will not be able to reflect individual pricing methodologies. However, price impact analysis should, as a minimum, reflect the expected number of connections and units delivered in the first year of DPP4, when expressing unit price metrics. | | |