



Submission on financeability in EDB DPP4 reset

15 March 2024

1 Submission and contact details

Consultation	Submission on financeability in EDB DPP4 reset
Submitted to	Commerce Commission
Submission address	Ben Woodham, Electricity Distribution Manager infrastructure.regulation@comcom.govt.nz
Date submitted	15 March 2024
Submitter	Scott Scrimgeour, Commercial and Regulatory Manager, Wellington Electricity Lines Limited (WELL)
Contact	Scott Scrimgeour, Commercial and Regulatory Manager
Email	[REDACTED]
Phone	[REDACTED]

2 Confidential information

There is no confidential information provided in this submission. This submission can be publicly disclosed.

3 Oxera financeability submission

Wellington Electricity Lines Limited (**WELL**) welcomes the opportunity to make a submission in response to the Commerce Commission's (**Commission**) '*DPP4 reset – Financeability of electricity distribution issues paper*'. This submission will refer to the consultation paper as '**The Paper**'.

Along with the other five large distribution networks, we have commissioned Oxera to provide a response to The Paper. The joint submission has been provided as a separate submission.

We also note the Oxera submission provided to the IM Issues Paper which also discussed the importance of financeability¹.

¹ https://comcom.govt.nz/__data/assets/pdf_file/0016/323107/27Big-627-EDBs-Oxera_-Response-to-Commission27s-draft-decision-for-IM-Review-2023-on-the-cost-of-capital-Submission-on-IM-Review-2023-19-July-2023.pdf

4 The importance of financeability and investability

The purpose of Part 4 of the Commerce Act 1986 (Part 4) includes a specific requirement to incentivise suppliers to continue to invest in distribution networks. This will be especially important as New Zealand delivers its Emissions Reduction Plan which relies on the electricity sector delivering 24% of carbon reductions through electrification². The Boston Consulting, 'Future is Electric' forecasts that EDBs will need to invest \$22b in new capacity in this decade. EDBs will need to find new funding by raising new debt and equity. As an aside, we note that EDBs will not have access to new capex until 2025 at the earliest (the start of the next price path), leaving just 5 years to make the \$22b investment needed to support New Zealand's decarbonisation. The delivery timeframe shrinks even further once planning, procurement, and workforce training are also factored in.

We are pleased that the Commission is considering introducing a financeability test. Financeability will be an important regulatory tool for ensuring an EDB has the allowances to fund debt interest costs, maintain financial capital maintenance, and retain investors.

However, we think the proposed framework is too subjective and will not provide an objective assessment of the financeability of a prudent network. The Oxera submission outlines how an objective assessment of financeability can be applied that would provide networks with confidence that allowances were sufficient to fund the cost of debt for a prudent firm.

The Oxera submission also introduces the related investability test which considers the impact of cashflows on dividend payments and equity retention. We disagree with the Commission's assumption that regular dividend payments should not impact the ability of a network to attract new equity investors. The Oxera submission provides empirical evidence of the importance of maintaining investability and its impact on retaining and attracting investors.

5 Closing

Financeability and investability are important and complex topics. The nine-working day submission window has provided limited time to think about the tools we need to ensure we can fund the step change in investment. We look forward to continuing this conversation with the Commission on this important topic.

² Exhibit 3, Boston Consulting, Future is Electric, <https://web-assets.bcg.com/b3/79/19665b7f40c8ba52d5b372cf7e6c/the-future-is-electric-full-report-october-2022.pdf>