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Ben Woodham
Commerce Commission New Zealand
Te Komihana Tauhokohoko

Emerging capex framework for DPP4

Tēnā koe Ben

1. Unison Networks Limited (**Unison**) appreciates the online workshop held to discuss the emerging views of the Commission's staff relating to the capex framework for DPP4. The discussion topics were constructive and highlighted similar concerns from several EDBs.

Our primary feedback

Further Asset Management Plan scrutiny

2. With the right metric, we support separate high-level requirements for some EDBs with unique or objectively 'high' capex requirements from the 'group'.

3. The timing to assess metrics has been challenging, and Unison intends to give further feedback at the next opportunity (presumably consultation on the Draft Decision), which will also benefit from shared industry-wide 24 AMPs.

Include RY24 in the 'historical reference period' to determine whether additional scrutiny is warranted

4. The five-year regulatory period provides certainty that there is a reasonable opportunity to 'catch-up' and minimise adverse impacts that may otherwise flow from unforeseen circumstances and the regulatory settings. This has been tested in DPP3 by the Covid-19 pandemic. EDBs re-prioritised and adjusted work programmes within the period to deliver on their asset management plans.

5. To be reflective of DPP3, it is critical that disclosure year 2024 (RY24) is included in the proposed reference period. RY24 is the only year consistent with Unison's forecasts in RY26-30 which are based on high certainty forecasting methods. Unison supports a three-year historical reference period RY22, RY23 and FY24, and the ENA's pragmatic weighting approach included in Question 2 of its submission. We consider RY24 should have an equal or higher weighting to RY23 (and a substantially lower weighting for RY22).

The existing definition of "programme" does not promote Part 4

6. Unison accepts the Commission has discretion to approve or reject reopener applications based on set criteria. The current definition, however, gives the Commission inappropriate discretion over whether the definition is met, as opposed to the reopener criteria. This conflicts with regulatory certainty under s 52R. Resolving this uncertainty will better promote Part 4 by clarifying what gap "programme of work" is intended to fill.

7. It is highly likely there will be unforecast peaks in multiple smaller projects with the same primary driver during DPP4. This presents a high risk to EDBs and consumers that substantial smaller

projects will overwhelm funding allowances. Without an uncertainty mechanism that responds, this may compromise EDBs asset management on a 'least cost life-cycle basis'. Deliverability can be confirmed as part of a reopener application and is more appropriately considered then, as opposed to as part of setting the default price-quality path.

8. We note the request for 'assumptions' to be clarified in the 24 AMPs. This has no bearing on the fundamental issue of an inadequate definition within the IMs. EDBs with mature asset management practices are still facing substantial uncertainty of potential peaks of multiple smaller projects that may have material impacts collectively. This is an industry wide issue given the foreseeable drivers of multiple connection requests individually below the reopener threshold are: Government or market incentives for distributed energy resources, commercial EV charges, and smaller scale industrial or commercial process heat conversions.

9. It will better promote Part 4 to give EDBs confidence that an uncertainty mechanism can respond to foreseeable or unforeseeable customer-driven projects with the same primary driver where reopener criteria are additionally met.

Deliverability constraints will drive higher market prices <u>not</u> excessive profits

10. Unison has already provided its view that deliverability falls outside the default price-path regime. Deliverability constraints are inherently uncertain, as evidenced by DPP3 and an unforeseen global pandemic. The five-year regulatory period provides incentives to 'catch-up' in the medium-term, alongside the certainty of funding over that period to re-prioritise or scale-up accordingly.

11. At a minimum, any correlating adjustment to address deliverability concerns would require robust justification. That appears inconsistent with a low-cost default price-quality path. For example, an analysis of aggregated industry data including labour requirements for forecast work programmes and market information. There is not a common resource composition for each category of work. Our experience is that system growth work has a proportionately higher materials component than labour force (estimated at 80/20 as opposed to 60/40 for asset renewal). System growth is uplifted from DPP3 in our ten-year plan. Analysis from DPP3 shows it has the lowest labour portion of total cost (vs. materials and other).

12. How industry have forecast system growth vs. asset renewal/other categories would be relevant to industry wide requirements (as opposed to aggregated capex programmes).

13. In-period adjustment mechanisms administered in accordance with proportionate scrutiny more appropriately lends to deliverability enquiries (i.e. contractor commitment to the work, noting commercial contracting arrangement will ensure a level of confidence in that deliverability).

Ngā mihi

Rachael Balasingam
Regulatory Manager

Appendix One: Response to questions in workshop slides

Question	Feedback
Workshop slides	
How could the "NZ EDB 2023" AMP Review report be taken into account within our capex framework?	It supports trust in the "good industry practice" of the asset management planning of the industry despite a challenging period. It appears consistent with a low cost DPP regime to scrutinise high growth forecasts in a similar way, focussed on the categories driving the uplift in funding requirements.
Metrics for assessing system growth, consumer connections, and renewal-related expenditure	
Are the proposed metrics useful for identifying EDBs where additional scrutiny may be warranted?	Without industry data available more widely yet, it is difficult to make a judgement. We will continue to consider to input through consultation on the Draft Decision. Given the metrics included in the workshop (and we appreciate the Commission stepping EDBs through several different metrics). Unison's previous investment in system growth relied on connection requests, and we disclosed this investment in capacity only in the connection category. The forecasting approach now reflects that where large customer projects require immediate network augmentation, the projects are therefore split as appropriate between the connections and system growth categories. The 24 AMP will include accurate maximum coincident peak demand growth.
Are there other metrics we should consider?	
System growth	
Where an EDBs capex intensity is expected to change significantly (5% or more than historical) indicate where your 23AMP or s 53ZD response explained the overall expected change in expenditure mix and the extent to which you have assessed the efficiency of this change (given the emerging scope for non-network/non-traditional solutions? Alternatively, state	Schedule 12c of Unison's s 53ZD response includes the connection requests forecast, with increased commercial and industrial connections. These are several large, expensive connections with upstream capacity upgrades that bring forward resolving forecast capacity constraints in the ten-year profile. The template tab provides more detail on the assumptions used for each primary driver (process heat, commercial EV charging, small gas conversions, DER, and organic growth).

Question	Feedback
whether you are expected to provide an explanation as part of your 2024 AMP.	
How could we assess that forecast expenditure has appropriately considered impacts that could be achieved through distribution pricing (in the context of a relatively low-cost DPP)?	Unison's Pricing Methodology is benefits based and cost reflective, including Time of Use charges. Our demand forecasts factor in demand-side responses where relevant. The capital contribution policy fairly allocates cost of connection and network augmentation to beneficiaries. The increase in Unison's capex work programme is primarily customer-driven with cost-efficient system growth upgrades associated. This information is included in the AMP and Information Disclosure requirements.
Capex reference period	
Please identify effective means of providing additional assurance (consistent with the relatively low-cost nature of a DPP) that the forecast levels of investment are in the long-term interest of consumers: • additional information requirements/tests that could be applied; • how investment that are particularly uncertain could be identified (on the basis that they may be better addressed through reopeners).	**Additional information requirements/tests** Unison supports additional scrutiny for EDBs with a higher forecast growth rate than an average across the rest of the 'group'. This appears consistent with the relatively low-cost nature of a DPP if it strikes a better balance for the consumer than requiring expensive and time-consuming CPPs. Additional information or tests need to address the Commission's underlying concern with funding the uplift. If the concern is evidencing the assumptions to assess their reasonableness – AMPs can address that concern (some will already). Unisons 24 AMP addresses our planning process in detail to give stakeholders confidence in our assumptions, and the constraints to be mitigated in the ten-year profile. **Please define 'programme of work' clearly** The below open-ended definitions are: • programme "*means a group of related projects with a common purpose*"; and • project *"means a temporary endeavour requiring concerted effort, undertaken to create a defined outcome"*. Our primary concern is smaller customer-driven work which, while individually, is likely to sit below the existing reopener threshold, it collectively could absorb significant funding allowance, materially impacting the asset renewal and replacement programme (if completed).

Question	Feedback
	To give context, a high-level estimate is that if Unison receives an additional ten individual commercial EV charging connection requests in each region (Hawke's Bay, Rotorua and Taupō), on one or two disclosures years, the cumulative cost is estimated to be $10m of capex, net of capital contributions. Any sacrifice of asset renewal programmes must be caught up on to prudently manage the network and avoid adverse quality outcomes. It seems entirely consistent with the Commission's objectives for the regime to support EDBs to undertake both: • smaller customer-driven work that would otherwise absorb an untenable level of funding to enable prudent asset management; and • asset management on a 'least cost life-cycle basis' and cost-efficiently maintain quality. At a transitional time, the many policy, legislative and regulatory uncertainties together create a high-level of risk of multiple smaller projects with the same primary driver. Leaving that level of risk within the regime (and industry wide) also increases the risk of the Commission receiving multiple CPPs in DPP4 for simple, easily evidenced funding needs. That would also come at disappointing and avoidable cost to consumers. In-period adjustment mechanisms could, at a minimum, respond to unforecast <u>customer-driven</u> smaller projects with the same primary driver, that will materially impact on an EDBs funding allowances within a short timeframe (say two disclosure years). Deliverability can, more fairly, be addressed in that context, because of an additional funding request (by contractor commitment to undertake the work), as opposed to the ten-year forecast. Any harm the Commission identifies from a more meaningful definition will likely be balanced by its residual discretion in the reopener process (applied with proportionate scrutiny). Unison's suggestion for a compromise between the Commission's desire for discretion to address different factual circumstances, and EDBs need for greater certainty to prudently forecast is: Programme *"means a group of related projects with a common purpose <u>or customer-driven projects with the same primary driver</u>".*
What reference period should the capex framework adopt for DPP4 and why?	In a period of growth including RY24 is critical to accurately reflect a trend (in particular, to support the Commission's commitment to providing for a transitional period and relying on EDBs good industry practice to forecasting). The three years of RY22, RY23 and RY24 are most reflective of DPP3 overall.

Question	Feedback
Identify whether LCC-eligible connection expenditure is listed in AMP 2023 and/or information provided in response to the s 53ZD (issued November 2023) and the location of this information within the documentation provided. • If you haven't identified LCC-eligible connection expenditure, please comment on the feasibility of creating a list of connection projects and programmes that would potentially meet the definition of an LCC in AMP 2024; and • If the information is readily available, please provide the listing.	No projects have been identified.
Deliverability	
• We understand that forecast expenditure is driven by project size & scope, volume of work and cost of the work programme. • To the extent that the increase in the forecast work programme is due to cost, please explain the variation in cost increases across capex	Unison understands the Commission's concern that lack of the ability to deliver on forecast projects because of labour market or supply chain constraints "*may translate into elevated projects, not through improved efficiency but non-delivery".* While we acknowledge the Commission has not been convinced by individual EDB commitments to deliverability, a letter is included from Unison's notionally consolidated contracting arm, Unison Contracting Services Limited (**UCSL**) confirming its ability to deliver on the 24 (Regulatory) Asset Management Plan forecast work programme for FY26-30. Unison will additionally look to additional contractor resourcing throughout the period, as relevant, including if required for a CPP or programme confirmed through an in-period adjustment mechanism. UNL and UCSL's experiences in DPP3 are that labour market and supply chain challenges create:

Question	Feedback

categories beyond CGPI. What support information / analysis can you provide?
 	
• Apart from having considered the challenges of delivering your work programme at an individual EDB level, what approach and evidence do you have that you have also taken into account potential sector-wide deliverability constraints?
 	
• What are your views on our proposal to consider deliverability as part of uncertainty regarding EDB expenditure, alongside need, timing and cost?
  ◦ What alternatives do you propose?
  ◦ Are there particular categories of capital expenditure which are more likely to be exposed to potential deliverability constraints?
	• increased costs of materials;
	• longer lead times (and higher WIP balances) due to delays and shortages;
	• increased training costs;
	• increased recruitment costs;
	• increased immigration costs; and
	• increased retention costs.
	
	We will consider this after the publishing of EDBs 2024 AMPs noting the Commission is the only party holding s 53ZD responses.
	
	As above, we are conscious that asset renewal programmes generally have a higher labour requirement than system growth.
	
	The industry has been increasing its demand on the supply chain over FY22-24 with higher capex programmes delivered on. Granular industry wide analysis would be required to understand the actual labour requirement forecast for each disclosure year to understand constraints and opportunities in a meaningful way.