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| Default price-quality paths for electricity distribution businesses from 1 April 2025 |
| Summary of consultation questions from Issues paper |
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| **Date of publication:** | 2 November 2023 |
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# 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

| Number  | Request for comment or responses on initial views | Page |
| --- | --- | --- |
| 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.**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:  |
| Chapter 3 – Forecasting capital expenditure |
| 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.**Do you have any particular concerns or issues with our proposed approach? If so, how could these concerns or issues be resolved?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:  |
| 3 | **We are proposing to apply the capital goods price index to forecast capex allocations.** Is there a more appropriate index which could be applied; and, if so, why? | 27 |
| 3 Response: |
| 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.**How should our capex forecast take into account potential sector-wide deliverability constraints? | 27 |
| 4 Response: |
| 5 | **We will be using the s 53ZD notice to collect information about how EDBs have reflected resilience in their expenditure forecasts.** What engagement have EDBs had with consumers about resilience expectations, especially as it relates to significant step changes in forecast expenditure?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: |
| 6 | **We would like to understand how potential changes in capital contributions policies could be accommodated in DPP4.**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: |
| 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.**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?  | 27 |
| 7 Response: |
| 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.**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.)If so, what evidence supports this view? | 34 |
| 8 Response: |
| 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.**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?Are there alternative drivers that we should consider, and what evidence is there that they can meaningfully predict EDB scale growth? | 34 |
| 9 Response: |
| 10 | **EDBs have identified that insurance costs have been increasing at a greater rate than other costs they face.**What evidence do you have about how these costs are likely to evolve over time? 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: |
| 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.** 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: |
| Chapter 3 – Quality standards |
| 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.**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 |
| 12 Response: |
| 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.** 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: |
| 14 | **Our initial view is step changes in reliability, if appropriate, may be accommodated through setting of values or revisions to definitions.**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?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: |
| 15 | **Our initial view is to not introduce new additional quality of service measures.** Are there any other quality of service measures beyond those currently required within DPP3 that we should consider introducing, and why?  | 38 |
| 15 Response: |
| Chapter 3 – Other issues  |
| 16 | **Aurora Energy is scheduled to rejoin the DPP from 1 April 2026.** Do you agree with how we propose to transition Aurora Energy to the DPP in 2026?  | 40 |
| 16 Response: |
| 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.**What particular challenges do you perceive may arise from shortening the regulatory period? What are the potential benefits to consumers from maintaining or shortening the length of the regulatory period? | 40 |
| 17 Response: |
| 18 | **The DPP sets annual deadlines by which suppliers must make Customised Price-Quality Path (CPP) applications to enter into effect the following year.**Do you support retaining a similar approach to setting CPP application windows as was undertaken for DPP3? | 41 |
| 18 Response: |
| 19 | **The current IMs provide for a discretionary shortening of asset lives.**Do you have views on the framework for assessing accelerated depreciation applications? | 41 |
| 19 Response: |
| 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.**Are EDBs considering the quality incentive scheme (QIS) in their investment decisions? 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: |
| 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.**How should we account for non-performance of non-network solutions (regulatory sandboxing)? | 46 |
| 21 Response: |
| 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.** 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? 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: |
| 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.**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?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?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: |
| 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.** Is there a basis for strengthening the incentives for energy efficiency and demand-side management initiatives?  | 49 |
| 24 Response: |
| 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.**Do you agree with our approach to not introduce a specific QIS related to reducing energy losses?  | 49 |
| 25 Response: |
| 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).**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: |
| 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.** Do you agree with this approach? If not, are there other alternatives we should consider?When applying this (or any other) analysis, what factors should we consider in determining whether a price change amounts to a price shock? | 54 |
| 27 Response: |
| 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? When applying this (or any other) analysis, what factors should we consider in determining whether a supplier faces undue financial hardship?  | 54 |
| 28 Response: |
| 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.**What models or data inputs could be provided by EDBs which would improve our approach to modelling consumer bill impact? | 58 |
| 29 Response: |