Orion

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Cross-Submission on EDB DPP4 Issues Paper

Background

1. The Commerce Commission (the Commission) published the Default Price-Quality Paths for Electricity Distribution Businesses from 1 April 2025 Issues Paper on the 2nd of November 2023[1] as part of the preparation for DPP4 (2025-2030) which closed on 19 December 2023.
2. The Commission included 29 questions, requesting stakeholder feedback[2]. There were a number of common themes throughout the submissions, and we acknowledge that these will pose challenges to the industry going forward.
3. We have reviewed the submissions in response to the Issues Paper and provide Orion's feedback in this cross-submission.
4. We provided input into the ENA submission and, in principle support their submission.

Context

5. The Commission has extended invites to online workshops over the coming months, specifically around innovation and non-traditional solutions, Capex framework and potentially financeability. We welcome this opportunity to provide input and context into the design and process for setting allowances leading up to the draft decision in the second quarter of 2024. We would also like to propose that the Commission considers providing face-to-face meetings as these are more engaging

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[1] https://comcom.govt.nz/__data/assets/pdf_file/0025/332944/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2025-Issues-paper-2-November-2023.pdf

[2] https://comcom.govt.nz/__data/assets/word_doc/0026/332945/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2025-Summary-of-consultation-questions.docx

and have more of an impact in terms of contribution.

6. We appreciate that the electricity sector is in a period of change, with some submissions providing context to the issues around investment and EDBs being enablers to the electrification transition. The following submissions support this view.

   6.1 MEUG submitted[3] that "*To enable the level of new electricity generation forecast to enter the market and to meet the increasing demand for electricity as we transition to a lower-emissions economy, significant investment is required in the distribution networks run by the 27 electricity distribution businesses (EDBs)*"

   6.2 KPMG's report on, 30 Voices on 2030: The future of energy in Aotearoa[4] stated that *"As the energy transition progresses, many chicken and egg situations are emerging that hold back investment. We're focused on matching supply and demand, so generation isn't built until load shows up and the grid needs to have the capacity to support that. As we've seen with the development of renewable energy zones in other countries, new frameworks can be required to address the impasse that can occur where the first to connect bears consequential risks when others commit. Safety nets are needed, but perhaps the market should be more dynamic to accept that, under certain settings, controls may be exceeded or reduced back again. Flexibility will allow us to target issues differently".* If investment in distribution is held back, we run the risk of demand management issues with limited flexibility and time to respond appropriately.

   6.3 Further, Contact Energy's submission[5] also mentioned that "*Electricity distribution services are a key enabler of the electrification and decarbonisation of the New Zealand economy. It is essential that the networks are able to invest to efficiently grow capacity. It is also essential that the impact on consumers is kept front of mind to not only minimise financial hardship, but also to retain trust in the electricity sector during the energy transition."*

7. The Consumer Advocacy Council also found in their research that there is growing interest by consumers to switch to electric in their survey, stating that "*6. By way of example, our July 2023 (published in December) behavioural survey found one third of consumers and small businesses are thinking about buying an electric vehicle in the next 12 months. Over the next five to 10 years:*

[3] https://comcom.govt.nz/__data/assets/pdf_file/0031/339763/Major-Electricity-Users-Group-MEUG-DPP4-issues-paper-submission-19-December-2023.pdf , Point 4.

[4] https://assets.kpmg.com/content/dam/kpmg/nz/pdf/2023/10/30-voices-on-2030-v2.pdf , Page 15

[5] https://comcom.govt.nz/__data/assets/pdf_file/0028/339760/Contact-Energy-DPP4-issues-paper-submission-15-December-2023.pdf , paragraph 2.

- *almost one in two (48%) consumers think their home will have switched to mostly electric power tools and equipment, such as electric lawnmowers*
- *four in 10 (42%) think their household will have an electric car and a similar number (40%) think they will have an electric bike, scooter or motorbike*
- *about one in three (32%) of those with mains gas expect to swap gas appliances for electric ones."*

This provides evidence that more people are looking at substituting other fuel sources like gas and fossil fuels with electricity.

Cross Submission Commentary

Financeability, Allowances and Reopeners

8. Financeability in the current context, which we believe the Commission has understood, is a real concern for EDBs. The exponential cost increases over the past few years are due to legislative changes, the pandemic and associated supply chain issues. This will be flow on to EBDs through penalties for overspending on our allowances set by the Commission. In addition, it is important that investors continue to see New Zealand EDBs as attractive for investment as we deliver on the investment needs of the energy transition.

9. Orion cross submits in support of Aurora's submission[6], as regards adapting to future changes in the industry where they state : *"20. The impact of the changing industry context is not confined to just increased infrastructure investment. Increased growth from electrification presents opportunities for distributors to invest in non-network solutions that are more efficient than capex alternatives. New LV visibility technology presents opportunities for distributors to make more targeted and efficient capex and opex investments in the future. Opex allowances need to be sufficient to ensure that distributors can spend in these areas that will ultimately benefit consumers".*

10. And further, Orion agrees with Unison's submission[7], in respect of current and future allowances, which stated that *"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,*

[6] https://comcom.govt.nz/__data/assets/pdf_file/0035/339758/Aurora-Energy-DPP4-Issues-paper-submission-19-December-2023.pdf

[7] https://comcom.govt.nz/__data/assets/pdf_file/0036/339777/Unison-Networks-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf, Question 1, paragraph 9.

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".

11. Adequate capex and opex allowances, and the interplay between these given non-traditional solutions, is critical for the next DPP period. Enabling sufficient Opex allowances will provide adequate investment for the challenges which EDBs face as mentioned in Orion's submission in respect of decarbonisation, electrification, resilience, innovation and curbing the impacts of inflation and supply chain cost pressures.

12. The industry is facing a period of uncertainty and it is critical that the Commission provides EDBs with adequate incentives to invest, and practical and workable allowances which retain the incentive to invest and encourages innovation and supports development of flexibility. This is particularly true for the longer-term objective that customers will benefit from lower costs.
13. The current reopeners are slow and cumbersome to access and there should be more use-it-or-lose-it allowances for targeted workstreams such as flexibility and demand side management. This is supported by Section 54Q of the Act relating to incentives for energy efficiency, demand-side management, and reduction of energy losses:

    "The Commission must promote incentives, and must avoid imposing disincentives, for suppliers of electricity lines services to invest in energy efficiency and demand-side management, and to reduce energy losses, when applying this Part in relation to electricity lines services".

14. Aurora submitted and we support[8] that "*We believe there is a strong argument that the provisional limit of 10% currently applied to 'cap' EDB's forecast revenue increases, serves as a 'cash flow' penalty for EDB's that are investing prudently for the long-term benefit of consumers. Retaining the traditional approach of limiting capex allowances by reference to historical expenditure at a time when step changes to support electrification of the economy are required, carries the risk of disincentivising investment through the imposition of an additional penalty in the form of an IRIS calculation*".

[8] https://comcom.govt.nz/__data/assets/pdf_file/0035/339758/Aurora-Energy-DPP4-Issues-paper-submission-19-December-2023.pdf

Caps and CPPs

15. Orion cross submits in support of the following views submitted by Unison, Powerco and Aurora. We believe that:
    - The 120% cap on capex is arbitrary as it is unable to shift and be agile to changing context each reset round.
    - DPPs need to provide more flexibility and responsiveness and that CPPs are not a solution for all EDBs in respect of investment uplift going forward.
    - the cap of 10% on forecast revenue increases has been restrictive on recovering revenue, particularly in recoverable costs and wash-up balances and that it will be a roadblock during DPP4.
16. Unison submitted[9], in respect of reliance on reopeners, that "*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)*. In addition, that "*CPPs are not an answer to industry wide problems"* and *"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".* We support this view and the DPP reset requires more flexibility.
17. PowerCo referred to the BCG report in their submission[10], that "*Boston Consulting Group (BCG) in their 'The Future is Electric' report. Additionally, Figures 2 and 3 [repeated below] illustrates that applying a percentage cap to a historical average for non-exempt EDB DPPs is unlikely to effectively support the energy transition".*

[9] https://comcom.govt.nz/__data/assets/pdf_file/0036/339777/Unison-Networks-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf, question2 paragraph 5 and 6.

[10] https://comcom.govt.nz/__data/assets/pdf_file/0030/339771/PowerCo-DPP4-issues-paper-submission-19-December-2023.pdf, page 6.

Figure 2: Actual/forecast capex and DPP capex allowance (nominal)[6]

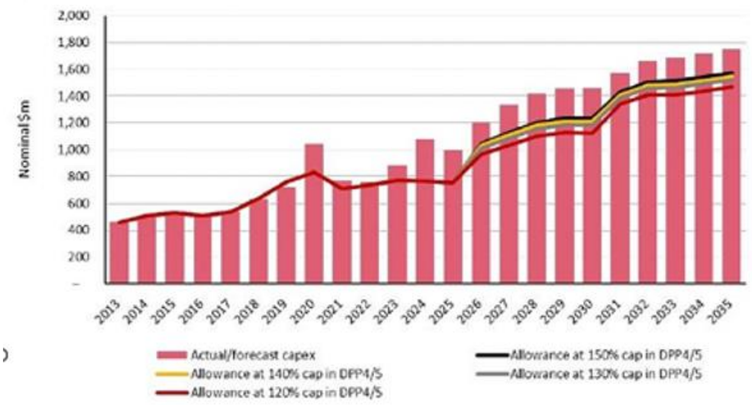


Figure 3: Capex capped out of DPP4 and DPP5 ($m nominal)[7]

	DPP4	DPP5
120% cap	1,491.3	1,291.7
130% cap	1,227.9	1,038.3
140% cap	1,090.0	919.9
150% cap	1,001.5	801.6

18. Many submitters are looking for the Commission to provide more flexibility within the DPP framework to support EDBs in their investment decisions through reopeners and allowances during the regulatory period.

Capital Build

19. Orion takes a measured approach when building additional capacity, this is done on a customer need and security of supply bases. We agree that EDBs investment decisions should be undertaken in a prudent manner.

20. We cross submit in support of Vector's approach, that *"110. Vector adopts a 'just in time' investment approach. Case study 3*[11] *below, is an extract from our 2023 AMP describing how our planning, processes and people come together to ensure we co-ordinate where possible projects that can be delivered together for an efficient outcome."* This approach also supports customers, provided we are aware of their needs, as it can minimise costs to build additional capacity.

[11] Page 29, Case Study 3, https://comcom.govt.nz/__data/assets/pdf_file/0038/339779/Vector-DPP4-issues-paper-submission-19-December-2023.pdf

21. Furthermore, Wellington Electricity submitted on their approach on LV Networks, "*Low voltage network Demand on the low voltage network will be from new connections and new demand from existing connections. We are developing a probabilistic model which will estimate when LV assets exceeds capacity. We are using this to develop capex budgets which will estimate how many networks will need capacity upgrades. This will provide a capex pool to call on when needed*".

22. EDBs are developing new tools to inform their decision making about building capacity or alternative approaches such as network optimisation and undertake the necessary due diligence when making investment decisions. The Commission's attention to funding data and digitisation expenditure is enabling for good decision making, overall expenditure levels and outcomes for customers.

Capital Contributions

23. We reiterate our position that the DPP should be re-opened for policy changes, either by the Government or regulators including the Electricity Authority, which alter the balance of EDB's recovery of capex during DPP4.

24. We cross submit in support of Vector's[12] submission that "*59. The ability to offer flexibility to access seekers where they can balance cost versus quality of service is relatively limited due to the physical nature of the network unless the Authority is envisioning some form of firm right for the management of discretionary load by EDBs where an access seeker agrees to be "first off" in the case of an EDB needing load management to resolve a network constraint. The Commission must ensure that any intended code changes by the Authority in relation to access pricing methodologies that have a flow on impact to capital contributions, has no unintended consequences on EDB's abilities to finance DPP4 expenditures."*

25. If the Authority intends to align the varying capital contribution policies of EDBs then there will be implications to the forecast, budgets and regulatory allowances the Commission has set.

Opex and Step Changes

26. We support Wellington Electricity's[13] submission on the Commission's robustly verifiable criteria that:

[12] https://comcom.govt.nz/__data/assets/pdf_file/0038/339779/Vector-DPP4-issues-paper-submission-19-December-2023.pdf

[13] https://comcom.govt.nz/__data/assets/pdf_file/0033/339792/Wellington-Electricity-DPP4-issues-paper-submission-19-December-2023.pdf

"8.5.2.2 Robustly verifiable

The description of what constitutes robustly verifiable evidence is useful and provides a good overview of what is needed to support a step change request.

We would add: EDBs should make joint requests (ideally via the ENA). This would allow any costs for expert advice to be shared, keeping step change requests within the context of the low-cost DPP regime. We support having the ability to provide cost estimates rather than relying on invoices and quotes. The actual cost may not be known until an EDB procures a service if they are procuring using a market tender. They may have to rely on expert cost estimates (using quantity surveyors or other procurement specialists) to support the step change request".

27. We cross submit in support of Vector that some key step changes are common across EDBs and that the Commission should look more closely at these areas in its assessment. Those step changes are;

"a. Network modernisation/ digitalisation including software as a service (SaaS);

b. Smart meter data: extending work carried out on our innovation project PRISMED to include network operation data, extended ICP coverage, enhanced LV monitoring;

c. Reactive maintenance in response to severe weather events to capture the increasing frequency of storms/ cyclones (out);

d. Insurance costs (see section above);

e. Regulatory, governmental, legal requirements on EDBs including upcoming policy changes, sustainability, consumer and iwi engagement"[14]."

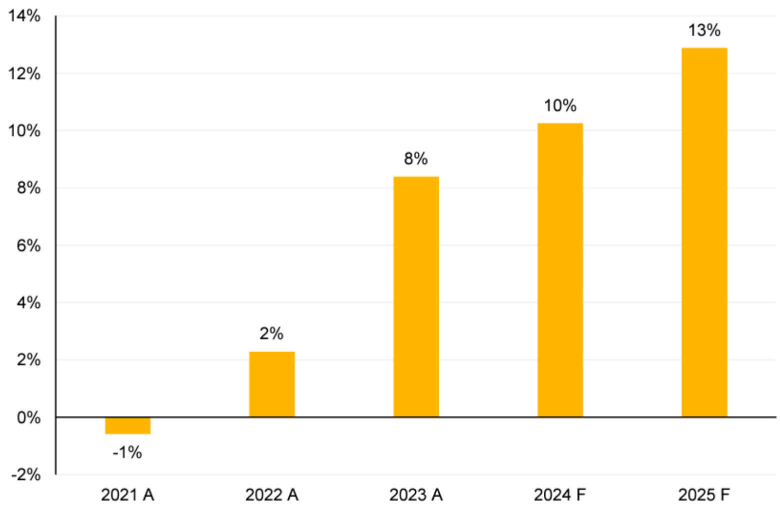
Applying step and trend to opex makes sense under a low-cost framework. However, the Commission may need to apply additional scrutiny for understanding over the particular step changes being raised by EDBs as listed above.

28. As Wellington Electricity illustrates, in their Figure 2 diagram (below) and study , EDBs not earning a regulatory WACC and "*new operating expenses not covered in allowances will be contributing to the low profits*." [15]

[14] Vector submission to DPP issues paper point 146

[15] Wellington Electricity page 28 https://comcom.govt.nz/__data/assets/pdf_file/0033/339792/Wellington-Electricity-DPP4-issues-paper-submission-19-December-2023.pdf

Figure 2 - Overspend as a percentage of operating expense allowances (non-except EDBs)



29. We acknowledge that the Commission does not necessarily view insurance costs as material against other costs . However, as a standalone cost it has increased significantly. Adequate levels of insurance, where available, are an important risk management tool for EDBs and by extension customers who ultimately bear the costs. Sufficient allowances to put prudent insurance in place is important particularly in the face of climate change and the threat of more major weather events such as Cyclone Gabrielle. There were several submissions which raised concerns about insurances and we support these concerns.

30. We consider a step change is necessary as it is a separate "disclosure line item" and we should not underestimate how this could affect regulated businesses and competitive businesses alike given it is a global issue. We therefore recommend that the Commission sets these allowances in a focussed manner.

31. Orion cross submits that additional reasonableness checks over and above the correlation between capex and non-network opex are required and we support Vector's[16] submission that they welcome "*the Commission's approach to using capex as a driver for non- network opex, but it must go further and start using EDBs' non-network opex forecasts instead of a base step trend approach".*

32. We cross submit that Electra,[17] when they submitted that "*Access to smart metering data is an ongoing issue that remains unresolved. We were pleased to see the Commission include the issue in*

[16] Vector point 119 https://comcom.govt.nz/__data/assets/pdf_file/0038/339779/Vector-DPP4-issues-paper-submission-19-December-2023.pdf

[17] https://comcom.govt.nz/__data/assets/pdf_file/0035/339749/Electra-DPP4-issues-paper-submission-19-December-2023.pdf, page 2

its DPP4 Reset Issues Paper. However, it is concerning that the Commission considers it reasonable that the rates charged by meter equipment providers (MEPs) for smart meter data are at a level that can amount to a 'step change' in opex.", have missed a critical point that meter data is a step change as it is more than just meter data acquisition costs but also the cost in leveraging the data through analytics to get the benefit from this volume of data.

33. Orion has already negotiated with the incumbent metering equipment provider to provide data for network management purposes, and this will result in additional storage and LV analytic costs going forward. We submit that this is a quantifiable step change in Orion's forecast costs.

34. We agree with Aurora's submission[18] which stated that "*42. The Commission's criteria for assessing step changes are too stringent and do not provide for new expenditure categories that may emerge during a regulatory period. In particular, the criterion to 'be robustly verifiable' is overly onerous and not practically workable. This is evidenced by the Commission's decision to reject a step change for cyber security costs in the DPP3 reset due to a lack of information. In practice, for a spend category to meet the robustly verifiable criteria the need would have to arise at the exact time of the DPP reset. In the case of cyber security this need was foreseen at the time of the DPP3 reset, however the amount of the spend required only became clearer during the regulatory period – forcing distributors to either delay spend and risk the security of their networks, or sacrifice a fair shareholder return by incurring IRIS penalties."*

35. We consider cybersecurity to be a key matter for EDBs that goes directly to the Commission's Section 52A (b) purpose as relates to service quality given the increasing integration of digital platforms with the 'poles and wires' operation e.g. network automation. Allowing step changes in this fundamental aspect of network operation is critical for DPP4.

Resilience

36. We support Transpower's RCP4 proposal to adopt use-it-or-lose-it allowances and Vector's point 94 to 96 in their submission[19] which requires regulatory consistency between industry participants, and that EDBs should have similar mechanisms, stating that:

    "*94. Transpower are looking to circumvent the above through their regulatory control period 4 (RCP4) proposal by requesting a use-it-or-lose-it (UIOLI) allowance for resilience expenditure. The UIOLI mechanism is not part of Transpower's individual price-path (IPP) regime, yet they*

18 https://comcom.govt.nz/__data/assets/pdf_file/0035/339758/Aurora-Energy-DPP4-Issues-paper-submission-19-December-2023.pdf

19 https://comcom.govt.nz/__data/assets/pdf_file/0038/339779/Vector-DPP4-issues-paper-submission-19-December-2023.pdf

have applied for it and have the support of their independent verifier to do so.

95. EDBs should have access to the same type of mechanism, if Transpower's proposal is accepted by the Commission. The regulatory burden imposed by a UIOLI scheme would be no more involved than that of a reopener, and yet funds would be accessible immediately. Indeed, for resilience the preference would be access to these funds ex-ante (UIOLI) and not ex-post (reopener).

96. If the Commission is mindful to introduce a UIOLI fund for resilience for Transpower it must also reconsider its IM final decision to not allow such schemes in the DPP".

37. Furthermore, to support resilience planning, Vector submitted that "*Currently the regulatory regime does not compensate for the holding of significant spares (noting the historic Wellington Electricity CPP) and a question exists whether the Commission, in the context of the predicted increase in severe weather events, combined with global supply chain challenges, should re-examine its treatment of holding strategic spares*".

38. Flexibility with allowances and financeability to contingent stock for resilience planning is essential if EDBs will be required to plan ahead in the event of changes in weather patterns, which have in recent times stress tested electrical infrastructure. The Transpower independent verifier supported the request for a UIOLI scheme, and if allowed, should be consistently applied to EDBs as the reasoning will be the same.

Innovation and non-traditional solutions

39. Orion cross submits in support of Wellington Electricity's[20] submission point that *"…, we think the innovation mechanism is a better tool (than a step change) to apply these exceptions. This will allow the exceptions to be applied to the specific trial activities. We suggest a specific innovation mechanism for flexibility services that includes a standard exception for all services funded by the innovation allowance to also provide an exception to exclude any SAIDI/SAIFI impacts from the annual quality assessment. We support a sand box approach".*

40. At this stage we do not know what the impact will be of disruptive technologies on power quality and outages especially during early discovery, pilots and trials. We believe that providing EDBs with mechanisms that carve this activity away from other activity will help promote innovation and help the sector, Commission and the Authority monitor and learn together.

[20] https://comcom.govt.nz/__data/assets/pdf_file/0033/339792/Wellington-Electricity-DPP4-issues-paper-submission-19-December-2023.pdf , page 55

41. Furthermore, we cross submit in support of Aurora's suggestion for a new non-network solutions outage category as complimentary to Wellington's suggestion for a separate innovation mechanism for flexibility services. The outage experience of relevant ICPs participating in trials under this mechanism could then be tracked separately[21], "*61. We support any changes that will remove the barriers to innovation, especially if those innovations could lead to more efficient non-network solutions that will benefit customers in the longer-term. A new outage category for non-network solutions should be added and excluded from the calculation of quality incentives*."

42. Orion supports the need for a more appropriate innovation scheme which includes non-traditional solutions, including the level of investment required or which can be claimed as revenue.

43. We therefore cross submit in support of Wellington Electricity's submission which states that, "*The majority of the risk of the project not providing the expected benefits falls on the supplier. This could be because the cost of innovating is higher than the IPA allowances and the supplier bears more than just 50% of the cost. It could also be that the quality incentives and penalties incentivise traditional capex solutions which are well understood and can be relied on and disincentivise non-network solutions which are perceived as more risky"*.

44. Orion would welcome a review of the approval criteria to allow for innovation to promote efficiency and not only purely cost reductions.

45. Orion cross submits in support of Vector's submission that the Commission considers the AER's demand management incentive scheme[22] to provide greater incentives to innovate and share learnings.

46. The AER demand management and innovation scheme fact sheet[23] includes:
    - Incentive payments will be up to 50% of expected costs on efficient demand management projects.
    - The incentive payment for any project can be no higher than that project's expected net benefit.
    - The total incentive in any year cannot exceed 1% of the distribution business's allowed revenue for that year.

    The AER also has a demand management R&D fund which they improved back in 2017 by:

21 https://comcom.govt.nz/__data/assets/pdf_file/0035/339758/Aurora-Energy-DPP4-Issues-paper-submission-19-December-2023.pdf

22 https://www.aer.gov.au/industry/registers/resources/schemes/demand-management-incentive- scheme-and-innovation-allowance-mechanism/

23 D17-173575 AER - Fact Sheet - Final demand management incentive scheme and innovation allowance mechanism - 13 December 2017.pdf

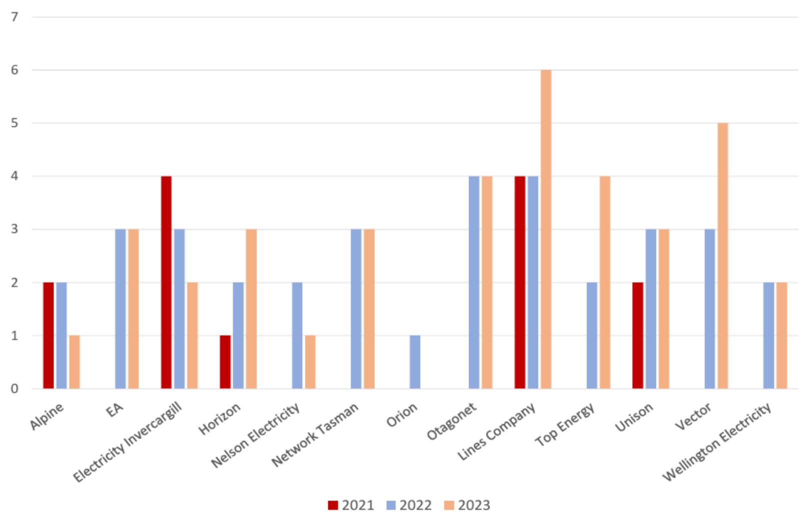
- Increasing the size of the fund to encourage about 30% more R&D on average.
- Tightening the criteria for project eligibility to encourage more innovative projects.
- Clarifying the reporting requirements on projects to emphasise the sharing of project learnings across the industry and with consumers.

47. While the DPP framework is low cost, we agree with Wellington's submission that the Commission's approach to innovation and non-traditional solutions need not be constrained by the principle that the DPP regime is low cost. We cross submit in support of Wellington Electricity's submission that "*We disagree that an innovation project must fit within the relatively low-cost DPP settings. An innovation project in itself is unlikely to trigger a CPP and the opportunity for significant improvements may be missed because no price path would capture it. We would support a tiered approach to scrutinizing innovation rather than binary acceptance criteria".*

Quality of Service- Major Event Days

48. The Commission has previously assessed the number of major event days to be 2.3 under the DPP3 approach in the issues paper, point F53[24] and is demonstrated in the reference graph shown below.

Figure F4 Number of SAIDI major event days per year[220]



49. In addition, Vector submitted[25] that "*150. We believe the Commission must apply caution to quality settings in DPP4 around: b. Using historical data to set key components of quality targets and limits where history will be a poor predictor of the future e.g. number of major events; and...."*

[24] https://comcom.govt.nz/__data/assets/pdf_file/0025/332944/Default-price-quality-paths-for-electricity-distribution-businesses-from-1-April-2025-Issues-paper-2-November-2023.pdf

[25] https://comcom.govt.nz/__data/assets/pdf_file/0038/339779/Vector-DPP4-issues-paper-submission-19-December-2023.pdf

50. Orion cross submits in support of Vector's view on major event days, that the Commission should review and potentially increase the number of major event days, which is supported by the graph above generally showing an increasing trend in events from 2021 to 2023 with climate change commentary citing more occurrences of such events in future.

X Factor

51. We cross submit in support Wellington Electricity's submission that "*We support setting a default X factor at 0% and including any productivity adjustment in the building blocks. As highlighted in our response to allowances for operating expenditure, we have concerns about whether productivity can be measured correctly with the data available from the ID's. We note that productivity will be addressed in a separate consultation once the Commission productivity analysis has been completed."* This is in line with Orion's initial view that we await the outcome of the DPP4 draft decision and productivity consultation before taking a position on the default X-factor if the step change may result in inefficient price shock.

Price Shocks and Bill Impacts

52. Orion's initial view is that we need a realistic uplift in allowances to support investment thereby ensuring an appropriate balance between investment and revenues.

53. PowerCo submitted[26] that, "*4. Availability of a CPP We acknowledge that a CPP may serve as a potential alternative to address financial hardship issues. However, it is crucial for the DPP to remain a low-cost option that is applicable to the majority of non-exempt EDBs. <u>This means the DPP must adapt to the current context that requires increased levels of investment by EDBs</u>*."

54. Aurora[27] also submitted a view regarding deferral of revenues and the impact on EDBs where "*77. The Commission needs to carefully consider the impact revenue deferrals will have on distributors cashflows. The Commission's view on undue financial hardship is only likely to apply in extreme scenarios and does not recognise that any deferral of revenue will have an impact on distributors cashflows and debt profiles. It is important that these impacts are reflected in the credit rating assumptions used in the calculation of the Weighted Average Cost of Capital (WACC)."*

55. We refer to the earlier graph under our response to Opex and Step Changes above which shows an increase in overspends of Opex to allowances overtime which is ultimately affecting EDBs ability to operate optimally.

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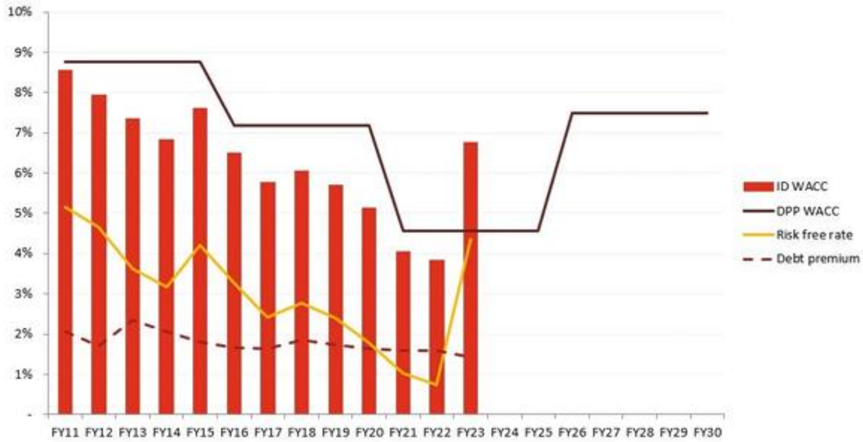
[26] https://comcom.govt.nz/__data/assets/pdf_file/0030/339771/PowerCo-DPP4-issues-paper-submission-19-December-2023.pdf

27 https://comcom.govt.nz/__data/assets/pdf_file/0035/339758/Aurora-Energy-DPP4-Issues-paper-submission-19-December-2023.pdf

56. We submit in support of PowerCo's[28] submission that, "*We expect that the primary driver behind the increase in revenue for the upcoming DPP period is the Weighted Average Cost of Capital (WACC), particularly the risk-free rate, which has experienced a substantial uplift from an abnormally low level in the DPP3 period. The reduction in WACC from DPP2 to DPP3 offset allowable revenue increases by 23%. It is crucial to communicate to consumers that we are transitioning back to a more typical level of cost of capital in DPP4*".

57. Furthermore, PowerCo commissioned work by PwC, attached to their submission and in that report, graph 6, shown below, clearly shows the downwards step change of WACC over the previous DPP reset periods. PwC noted 2 points:
    - This was a continuation of a falling WACC trend from DPP1 to DPP3, as shown in 6) below.
    - Our WACC estimates for DPP4 reflect the reversal of that trend, which is also evident in the Information Disclosure WACC for FY23.

6) Regulatory WACC estimates, DPP1 -DPP4



PwC - Revenue Modelling

58. In addition, TLC's submission[29] supported this view in their response to question 28, stating "*We highlight that the movement for DPP2 to DPP3 saw TLC have a reduction in net allowable revenue of approximately 15% from 2019/2020 to 2020/20212, with most other distributors also having decreases*".

[28] https://comcom.govt.nz/__data/assets/pdf_file/0030/339771/PowerCo-DPP4-issues-paper-submission-19-December-2023.pdf

[29] https://comcom.govt.nz/__data/assets/pdf_file/0034/339775/The-Lines-Company-Ltd-DPP4-issues-paper-submission-19-December-2023.pdf

59. And further, Electric Kiwi in their submission[30] are sympathetic to distributor concerns, that "*The concerns are borne out by MBIE residential price monitoring which shows that while residential prices did go down following the last reset, the bulk of the network price reductions were absorbed in the energy (retail/wholesale) component of consumer bills. This highlights wider questions about how competitive the electricity market is and the extent to which it can be relied on to ensure consumers get the full benefits of network price regulation."*

60. Orion cross submits that a significant uplift in WACC has a flow on impact to revenue and prices. In the same way that a revenue downshift of more than 10% occurred from DPP2 into DPP3 the reverse and symmetric impact will occur into DPP4 from DPP3, this does not mean that an uplift in prices is inefficient or that they should be artificially capped.

Line Losses

61. Orion's submission agrees with the Commission's position to not implement a QIS for line losses. We submitted in detail on this in our previous submission to the 2018 DPP3 Issues paper[31].

Deliverability

62. Orion has been working with our service providers regarding deliverability of our work programmes and acknowledge that EDBs need to and do consider this when working through the Asset Management Plan forecasts and planning of their programmes of work.

63. We cross submit in support of Aurora's comment on deliverability in their submission[32], "*28. There is no need for the Commission to specifically consider sector-wide deliverability constraints. Deliverability, including sector-wide factors, is already considered when distributors prepare their AMPs. Any sector-wide adjustment for deliverability would ignore the fact that each distributor has their own unique deliverability considerations and mitigations in place"*.

64. The DPP is meant to provide a low-cost framework for the majority of EDBs and we do not believe that this level of scrutiny is required when setting allowances under this framework.

Productivity

65. There were a number of submissions voicing concern in response to the Commission's view on productivity. We cross submit in support Aurora's submission that the issue of productivity is a

[30] https://comcom.govt.nz/__data/assets/pdf_file/0027/339750/Electric-Kiwi-DPP4-issues-paper-submission-14-December-2023.pdf

[31] https://comcom.govt.nz/__data/assets/pdf_file/0008/112004/Orion-Submission-on-EDB-DPP-reset-issues-paper-20-December-2018.pdf see point 79-83 and 85-86.

[32] https://comcom.govt.nz/__data/assets/pdf_file/0035/339758/Aurora-Energy-DPP4-Issues-paper-submission-19-December-2023.pdf

New Zealand wide issue, and Vector's submission that "*EDBs are pulled more and more into activities which go beyond purely keeping the lights on"*. We submit that the Commission should hold workshops with EDBs to understand this dynamic in more detail.

66. Aurora submitted that "*69. The New Zealand Productivity Commission published a report in July 2023 which identified New Zealand as having one of the worst rates of productivity in the OECD. The issue of productivity is complex and widespread across New Zealand, not just in the electricity sector as evidenced by the new Government's focus on removing regulation*".
67. Vector submitted that "*165. In its efficiency review, the Commission may be presented with graphs showing declining productivity for EDBs, however it cannot be looked at in isolation of typically used drivers, because EDBs are pulled more and more into activities which go beyond purely keeping the lights on at low cost to consumers. These atypical requirements will only grow further as move into DPP4 and DPP5. The Commission must find new ways to look at productivity which takes into account these unmeasured outputs and we look forward to engaging during the efficiency review process next year".*
68. We look forward to engaging with the Commission regarding the efficiency and productivity of lines companies later this year.

Regulatory Period

69. There was generally support across submissions to maintain a 5-year period. We support Alpine Energy's submission[33] that the 5-year period should be retained:

"*44. Alpine Energy is of the view that the length of the DPP4 regulatory period should remain 5 years. Changing the length of the regulatory period would greatly increase the uncertainly of the regulatory regime disrupting our ability to efficiently manage and deliver projects in the cost-efficient manner. We see it as unwarranted and adding further complications to an already complex regulatory regime, including the flow-on impact on aspects such as IRIS, financeability and revenue recovery over the regulatory period".*

[33] https://comcom.govt.nz/__data/assets/pdf_file/0034/339757/Alpine-Energy-Ltd-DPP4-Issues-paper-submission-19-December-2023.pdf

Timeframes

70. Referring to the timeframes set for the IM Review, we note that it was significantly longer and overlapped with the DPP process. This has had the impact of a critical part of the process running in the lead up to Christmas with submissions on 19 December. This meant, for some, that staff who are critical to the consultation process were not available to contribute to the content of submissions. We were aware that the turnaround timeframe for submissions would be relatively short and would like to raise concern that this may result in industry participants not giving the consultation submissions adequate consideration in the short space for cross-submissions.

Concluding Remarks

We do not consider any part of this submission to be confidential. Please do not hesitate to contact Rob Tweedie or myself on 03 363 9898 should you wish to discuss our submission.

Yours sincerely

Dayle Parris
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