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Feedback on DPP open letter

Introduction

The Lines Company Limited (TLC) thanks the Commerce Commission (Commission) for the opportunity to provide feedback on the Commission's *Open Letter: Ensuring our approach to price paths is delivering for consumers*.

The electricity sector is undergoing rapid transformation, driven by decarbonisation, electrification, and evolving consumer expectations. Regulatory settings must be agile and forward-looking to ensure networks can deliver reliable, affordable, and resilient services while supporting New Zealand's long-term transition goals. We recognise the Commission's commitment to placing the long-term interests of consumers at the heart of DPP5 and welcome the opportunity to contribute to this important conversation.

The purpose of the Commission's open letter to stakeholders is to obtain views on:

- the recent reset of the electricity distribution default price-quality paths (DPPs) which applies to non-exempt electricity distributors (EDBs) from 1 April 2025 (DPP4);
- mechanisms, incentives or settings which could be applied in DPP5 (the reset which will apply to EDBs from 1 April 2030), and the process and information for that reset.

TLC's feedback

TLC's feedback is in **Attachment: TLC feedback on DPP open letter**. We have highlighted important issues for TLC and our community in this document. TLC is also a party to, and supports, the Electricity Networks Aotearoa (ENA) submission.



Recommendations

We encourage the Commission to:

- adopt a longer trailing average for the cost of debt (10 years), with annual updates, to smooth volatility and provide greater investment clarity.
- prioritise the development of fit-for-purpose tools to manage connection and customer-driven capex risk.
- introduce practical mechanisms and pilot incentives in DPP5 to encourage and de-risk innovative, least-cost solutions.
- invest in improvements to data collection, sharing, and benchmarking, and provide clear guidance on AMP expectations.
- ensure diverse consumer voices are reflected in DPP5 settings and quality standards, with mechanisms for ongoing engagement.
- strengthen coordination with the Electricity Authority (Authority), Ministry of Business, Innovation and Employment (MBIE), and Energy Efficiency and Conservation Authority (EECA) including joint roadmaps and shared consultation processes.
- publish a clear DPP5 roadmap and improve regulatory transparency (e.g. timely consolidated index of Input Methodologies (IM), Information Disclosure (ID) Determinations and other regulatory documents).

Summary

We acknowledge the Commission's consultation, engagement and consideration and we look forward to working with the Commission for DPP5. If the Commission has any queries, don't hesitate to get in touch with Craig G. Donaldson, Pricing & Regulatory Specialist, at [REDACTED]

Yours sincerely

[REDACTED]

Romay Rundgren
General Manager Finance

Attachment: TLC feedback on DPP open letter

Weighted Average Cost of Capital (WACC) Volatility and Price Path Stability

Observation:

WACC is a primary driver of allowed revenue resets and, consequently, price path volatility. Recent DPP resets have seen significant swings in allowed revenues, largely due to WACC movements driven by short-term interest rate volatility. These fluctuations are often disconnected from underlying network cost or investment needs which is not in the long-term best interests of consumers.

Alignment with ENA:

We strongly support ENA's recommendation to adopt to a trailing average cost of debt, as approach aligns with international best practice and promotes the long-term consumer benefits.

Recommendation:

- Adopt a longer trailing average for the cost of debt (10 years), consistent with the UK and Australian practice to smooth volatility and provide greater investment clarity.
- Introduce annual updates to the cost of debt component during the regulatory period, to further reduce the risk of large, sudden changes in allowed revenue.
- Undertake formal review of WACC methodology as part of the DPP5 process, including international benchmarking and stakeholder consultation.
- Enhance transparency around WACC calculation and its impact on price paths to build sector understanding and consumer confidence.

International Comparison: WACC Smoothing Approaches:

To ensure price paths deliver for consumers and support long-term investment, we recommend the Commission consider international best practice in WACC setting and volatility management. The following table summarises key approaches for the cost of debt:

Jurisdiction	Cost of Debt Averaging	Annual Updates
New Zealand	3-month trailing average	No (reset every 5 years)
UK (Ofgem)	10-year trailing average	Yes
Australia (AER)	10-year trailing average	Yes

Key Observations:

Both the UK and Australia use much longer trailing average periods for the cost of debt and update this annually, which significantly reduces WACC volatility. New Zealand's use of a three-month trailing average updated every five years is an outlier and a key source of price path volatility for both EDBs and consumers.

Connection and Customer-Driven Capex

Alignment with ENA:

We endorse ENA's call for improved mechanisms to manage lumpy, unpredictable demand (e.g. from electrification and gas transition), including ringfencing, new mechanisms, or accelerated reopeners.

Recommendation:

- Prioritise the development of fit-for-purpose tools to manage connection and customer-driven capex risk, ensuring EDBs can respond efficiently to rapid demand changes without undermining affordability or reliability.
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Innovation, Non-Traditional Solutions, and Flexibility

Observation:

The sector needs stronger incentives and flexibility to adopt non-network solutions (e.g. demand response, distributed energy resources, flexibility services).

Alignment with ENA:

We support ENA's call for pilot incentives, and practical mechanisms to encourage innovation and flexibility.

Recommendation:

- Introduce practical mechanisms in DPP5 to encourage and de-risk innovative, least-cost solutions.
- Establish a joint working group with the Commission and industry to develop methodologies for valuing flexibility and non-traditional solutions.
- Ensure the framework does not inadvertently penalise EDBs for pursuing non-traditional approaches that deliver long-term consumer value.

Asset Management Plans (AMPs), Data, and Transparency

Alignment with ENA:

We endorse ENA's call for improved guidance and comparability for AMPs and data, with the potential for more streamlined approvals where data is robust.

Recommendation:

- Invest in improvements to data collection, sharing, and benchmarking to support better forecasting and transparency.
- Provide clear guidance on AMP expectations and leverage robust data to streamline regulatory processes.
- Pilot targeted assurance or independent verification for high-risk expenditure areas, with clarity on how such efforts will inform regulatory decisions.

Consumer Engagement and Fairness

Observation:

Consumer expectations are rising, and fairness—including for vulnerable and regional consumers—must be central to regulatory design. This means a discussion will be needed in terms of balancing reliability and affordability.

Alignment with ENA:

We support ENA's call for clearer, more practical guidance on consumer engagement and balancing affordability with broader consumer outcomes.

Recommendation:

- Ensure diverse consumer voices are reflected in DPP5 settings and quality standards, with particular attention to rural, vulnerable, and energy-hardship customers.
 - Consider mechanisms for ongoing consumer engagement such as regular forums or targeted surveys, particularly as the sector transitions to new technologies and service models.
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Adjustment Mechanisms and Uncertainty

Alignment with ENA:

We support ENA's recommendation for fit-for-purpose reopeners and uncertainty mechanisms for exogenous shocks.

Recommendation:

- Consider more dynamic regulatory mechanisms (e.g. reopeners, uncertainty allowances) to manage unforeseen shocks or rapid demand shifts.
- Ensure adjustment mechanisms are transparent, predictable, and do not undermine long-term investment signals.

Cross-Agency Alignment

Alignment with ENA:

We strongly support ENA's call for much stronger coordination between the Commission, Authority, MBIE and EECA, including joint roadmaps and clear leadership on cross-cutting issues.

Recommendation:

- Strengthen coordination with the Authority, MBIE, and EECA to ensure alignment and avoid duplication or gaps.
- Publish a joint multi agency roadmap for DPP5 and related sector reforms or convene regular cross agency workshops.

Processes

Observation:

We congratulate and thank the Commission for ongoing process improvements for DPP resets and IM reviews. These are necessary resource hungry projects and having clear timeframes and expectations aids process improvement.

Recommendation:

- Publish a clear DPP5 roadmap and timeline, including sequencing with IM reviews and related workstreams.
- Improve regulatory transparency by providing a consolidated, user-friendly index of IMs and IDs, and enhancing website navigation for stakeholders.

We support the expanded use of workshops and modelling tools to clarify complex industry mechanisms and facilitate greater stakeholder comprehension.
