TRANSPOWER

Waikoukou
22 Boulcott Street
PO Box 1021
Wellington 6140
New Zealand

[redacted]
www.transpower.co.nz

Attn: Electricity Distribution Manager

By Email: infrastructure.regulation@comcom.govt.nz

7 October 2025

Commission's open letter for Default Price Path 5 (DPP5)

We welcome the opportunity to submit on the Commerce Commission's (Commission's) Open Letter consultation with regards the 2030 Default Price Path Reset (DPP5). We have limited our feedback to the following issues:

We focus on:

- how standardisation across EDB practice can improve efficiency and informational value such as demand forecasting approaches and data sharing;
- our thoughts on equalising capex/opex incentives through a totex approach;
- expenditure flexibility mechanisms; and
- input cost escalation.

Data, standardisation, and interoperability

Electrification and the integration of distributed energy resources (DER) requires a step-change in how Electricity Distribution Businesses (EDBs) manage data and system operations. Transpower supports the Commission incentivising distributors to invest in a shared data-interoperability platform.

The large number of EDBs (relative to New Zealand's population) each with potentially different approaches to data, methodologies, and interoperability, risks inefficiencies and duplication across the industry, creating higher costs for consumers. Standardising data across EDBs would materially improve visibility, and unlock lower-cost electrification and flexibility services.

Our primary focus for data interoperability is the potential it has to assist with greater consistency across demand forecasts, the procurement of non-traditional solutions, and aggregation of operations.

A consistent forecasting methodology, supported by standardised data inputs and shared scenario assumptions, would improve comparability, transparency, and coordination across the electricity system. This would allow both the Commission and Transpower to make better-informed decisions about transmission and distribution investment needs, ensuring consumers receive reliable, efficient, and affordable service outcomes. International precedent demonstrates that harmonised forecasting frameworks underpin cost-effective network planning and support the transition to a highly electrified, decarbonised grid.

Similar interoperable data sharing platforms have already emerged in overseas jurisdictions, with the above benefits already being realised:

- Denmark's Energinet DataHub – national platform collecting all meter and market data under a common schema; reduced connection timeframes and lowered transaction costs.
- Norway's Elhub – centralised data exchange mandated by the regulator; dramatically improved data quality and reduced duplication.
- UK "Open Networks" Data Working Group – created standard data templates for DNOs, enabling comparability and system-wide visibility.

While acknowledging the overlap between the Electricity Authority's work (Network visibility, distribution system operations) and the Commission's remit, the Commission may need to make allowances for, and incentivise, the EDBs to achieve the standardisation and interoperability.

Equalising expenditure incentives

Our concerns remain with how the existing capital expenditure (capex) and operating expenditure (opex) incentive mechanisms play out. Specifically, as the CEPA (2018) report demonstrated,[1] the incentives between opex and capex are not equal in all situations. For example, the accounting clarification on the recognition of software-as-a-service implementation costs resulted in reclassifying costs from capex to opex. This reclassification caused a material IRIS penalty in RCP3 for Transpower that was not fully offset via the capex incentive mechanism.

We believe the totex approach used in the UK is worth continued regulatory attention, for the following reasons:

- a totex approach can assist with financeability issues. Two features of Ofgem's totex approach is the capitalisation rate and a single 'asset' depreciation life. Both factors can be used as levers to alter a network's cashflows to support financeability
- a totex incentive mechanism simplifies the financial incentives, including the CC potentially not needing to apply judgement in rules that are intended to promote certainty. Decisions can be made unhindered by having to work out how the incentive regime would apply depending on capital or operating expenditures
- to encourage greater use of non-traditional solutions.

Flexible expenditure mechanisms

The Commission relies heavily on reopener mechanisms for making allowances more dynamic. While these provide the Commission a chance to scrutinise the expenditure when an event occurs, they can be administratively burdensome (for both the networks and the Commission) and may not be timely. We consider that the Commission could explore alternative, mechanistic, options for DPP5.

For example, we submitted to the Commission's 2023 Input Methodologies review that it could consider introducing a use-it-or-lose-it (UIOLI) mechanism.[2] This mechanism would increase EDBs allowances if (and when) they delivered specified outputs. We consider that this type of mechanism would give the EDBs certainty of access to funding, but also a requirement to demonstrate the delivery of outputs for which the UIOLI mechanism was introduced.

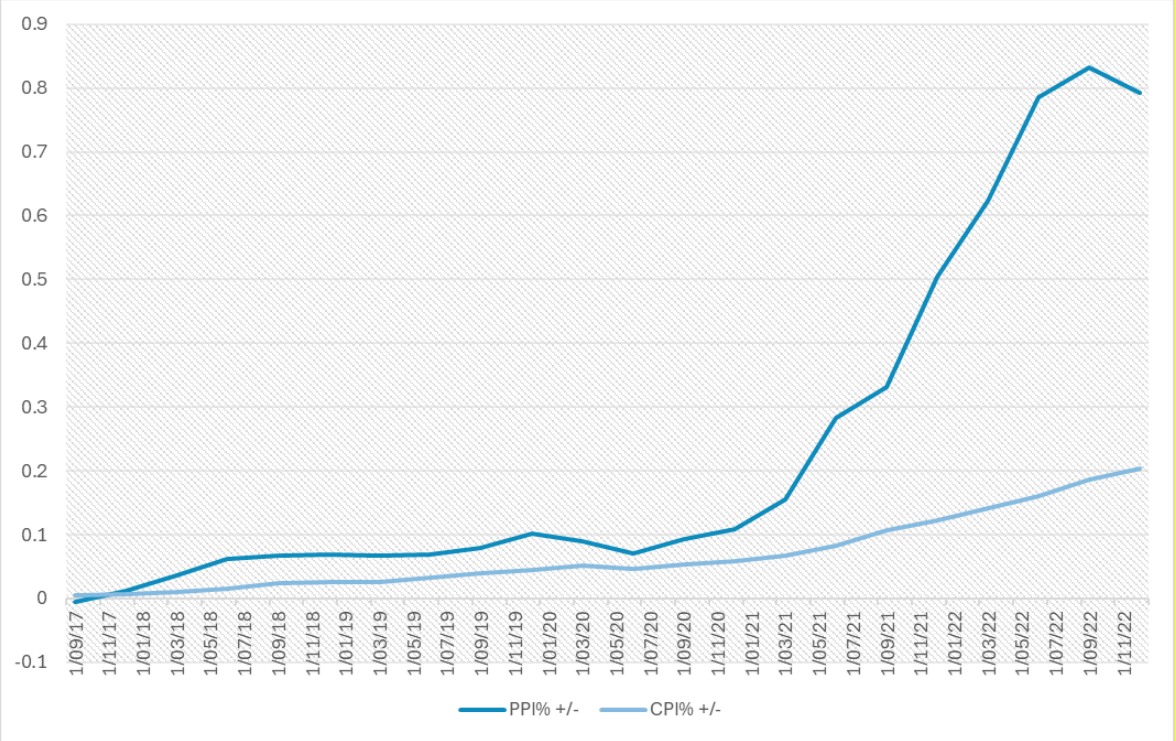
[1] CEPA Report - Expenditure Incentives, considering incentive mechanisms in the National Electricity Market in Australia, similar to our capex incentive mechanism and our IRIS incentive mechanism
[2] TP_Sub_IMs_Draft_Decisions_19July2023.pdf page 6

Cost escalation risk

Cost escalation in the electricity sector is a growing risk, particularly for major investments. Worldwide electrification has (and is) significantly increased the demand for electricity network equipment and manufacturing capacity has not caught up.[3]

The graph below compares the producer price index (PPI) for Electric Power Manufacturing/ Specialty Transformer Manufacturing with the CPI over five recent years. It clearly shows the growth in cost of manufacturing outstripping inflation. EDBs, Transpower, and their suppliers face real cost escalation that is unlikely to have been covered by real price effects based on raw material input prices. The Commission will need to consider whether new input price indices are required to ensure EDBs have appropriate allowances for the vital capex work that is required to maintain their service levels.

Figure 1: Producer price index (electric power manufacturing) versus New Zealand's all groups CPI



Source: Stats NZ CPI data, Federal Reserve Economic Data (FRED) PPI data

Decisions around deferring investment needs to take account the risk of costs escalating faster than the benefits of deferral (i.e., deferred recovery on and of capital). While non-traditional solutions such as demand response, battery energy storage systems, and flexibility services provide valuable real options and support system resilience, they do not always represent a lower-cost alternative if used solely to defer physical investment.

Accordingly, the regulatory framework for DPP5 should continue to support timely investment where justified, ensuring that incentives and approval processes do not create perverse outcomes that reward deferral over long-term efficiency. Escalating costs for labour, materials, and services can erode the value of deferral. A balanced approach is needed to ensure that non-traditional solutions are used where they add value, but not as a default for deferral.

[3] IEA: Building the Future Transmission Grid, p27

If you wish to discuss any of the points outlined in this submission, please contact us.

Yours sincerely,

Joel Cook

Head of Strategy and Regulation