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Tēnā koutou

SUBMISSION ON OPEN LETTER: ENSURING OUR APPROACH TO PRICE PATHS IS DELIVERING FOR CONSUMERS

Unison Networks Limited (Unison) serves Hawke's Bay, Taupō, and Rotorua, while Centralines Limited (Centralines) operates in Central Hawke's Bay. We appreciate the opportunity to respond to the Commerce Commission's Open Letter and support the goal of ensuring price-quality paths deliver for consumers amid a rapidly evolving energy sector.

This submission addresses:

- The recent reset of the electricity distribution default price-quality paths (DPPs) for non-exempt electricity distributors (EDBs) from 1 April 2025 (DPP4); and
- Potential mechanisms, incentives, and settings for DPP5 (from 1 April 2030), including the process and information requirements for that reset.

We are supportive of the Commission's intention to engage early with stakeholders on the design of DPP5. Early engagement is critical to enable robust input into regulatory settings and to ensure that frameworks are fit for purpose in the face of increasing uncertainty and evolving consumer expectations.

Executive Summary

This submission's key recommendations in response to the Commission's open letter are:

- **Enable investment:** *DPP5 should empower EDBs to invest in network capacity ahead of rising demand in a dynamic environment*. This includes enabling timely network upgrades to accommodate electrification growth and planning for future-focused, cost-effective investments. By enabling investment, the regime helps ensure that networks can meet decarbonisation-driven needs efficiently and avoid constraints for consumers as demand patterns evolve.
- **Facilitate flexibility and consumer participation:** *DPP5 should encourage the use of flexibility services and non-traditional alternatives including demand response and DER integration, as viable options*. By providing the appropriate incentives, the regime can maximise the efficient utilisation of flexibility, particularly residential and small-scale resources, and support consumer participation in network solutions. This approach ensures that flexibility is considered in the most efficient way to meet emerging system needs.
- **Complete the IM Review before DPP5 with consumer-focused refinements:** *Key Input Methodology changes should be implemented prior to the DPP5 reset.* We support adopting

a trailing average cost of debt (to smooth financing costs and reduce price volatility for consumers), introducing formal financeability testing (to ensure networks can attract capital for required investments, maintaining reliable service), and enhancing uncertainty mechanisms (so cumulative or unforeseen changes can be addressed within-period, ensuring timely investments aren't delayed). These changes will provide greater certainty and stability in the long-term interests of consumers.

- **Broaden focus to consumer outcomes and reliability:** *While cost efficiency remains vital, DPP5 should incentivise outcomes that consumers value, such as reliability, resilience, and affordable*. This could include mechanisms to fund resilience improvements (especially in response to climate events) and balanced incentives for service quality (rewarding networks for exceeding reliability targets, not only penalising shortfalls). By extending the performance focus beyond 'lowest cost,' the regime will better deliver the Part 4 purpose of long-term benefits to consumers, including affordable and reliable energy.

- **Introduce flexibility and innovation incentives:** *Align the regulatory framework with a Distribution System Operator (DSO) future by supporting innovation and demand-side management*. We recommend a dedicated operating expenditure allowance or incentive for demand management similar to Australia's Demand Management Incentive Scheme so that investing in flexibility (such as controlled EV charging or battery orchestration) is rewarded on an equal footing with building new assets. This will encourage EDBs to strategically manage demand peaks, integrate DER, and defer capital expenditure were efficient. Importantly, the regime should remain sufficiently flexible to adapt over time, allowing networks to respond to emerging technologies, evolving consumer behaviour, and changing system needs while continuing to deliver cost-effective and reliable outcomes.

- **Enhance planning and consumer engagement:** *Improve the quality of Asset Management Plans (AMPs) and the depth of consumer engagement to strengthen the evidence base for DPP5*. AMPs should become more forward-looking and scenario-based (aligned with national Energy Strategy and Infrastructure plans, and explicitly incorporating DER and flexibility options) and more standardised for comparability. Likewise, EDBs should adopt innovative consumer engagement methods (e.g., customer advisory panels, surveys, focus groups) to ensure investment plans reflect consumer preferences around service levels, sustainability, and affordability. These steps will make the DPP5 decisions more robust and consumer centric.

- **Take an integrated, collaborative approach to DPP5 development:** *We encourage the Commission to coordinate DPP5 preparations with other sector initiatives and maintain open stakeholder dialogue*. This includes aligning with the Electricity Authority and MBIE (so that pricing reforms, market developments, and DPP5 incentives all work together) and conducting early workshops on key topics (such as connection-driven capex needs, flexibility mechanisms, quality of service standards) before formal consultation. A clear roadmap and ongoing engagement will help industry participants prepare and will result in a more coherent, well-supported DPP5 outcome.

By pursuing the above, DPP5 can be "future ready" supporting necessary investments and innovations while continuing to deliver efficient pricing and the long-term benefits that consumers expect from a stable and responsive regulatory regime.

1. Reflections on DPP4

What worked well:

- **Early and structured engagement:** The Commission's use of workshops, targeted requests for information, and draft decisions provided a clear structure for stakeholders to engage. This helped networks understand proposed changes and provide considered feedback.
- **Recognition of changing cost drivers:** The Commission acknowledged rising interest rates, inflationary pressures, and the increasing need for asset renewal, allowing networks to recover higher revenues to maintain reliability.
- **Incorporation of targeted IM amendments:** Timely Input Methodology updates ahead of DPP4 enabled important adjustments (e.g. moving to a revenue cap and refining quality standards) without delaying the reset.
- **Focus on efficiency and use of existing capacity:** DPP4 retained incentives to optimise use of existing assets and encouraged consideration of non-traditional solutions, aligning with the Commission's efficiency objectives.

Areas for improvement:

- **IM review timing and sequencing:** Key structural issues (e.g. introducing financeability testing and a debt trailing average) were not addressed ahead of DPP4. Completing a full IM Review before the next reset would provide greater regulatory certainty and allow these foundational settings to be settled in advance.
- **Limited use of uncertainty mechanisms:** The regime had not evolved to fully address emerging policy and market changes. For example, the cumulative impact of multiple Electricity Authority Code amendments (each individually small) could become material, yet current reopener thresholds might not capture this. This means some significant impacts could not be recovered within the period.
- **Flexibility enablement:** While flexibility was highlighted in principle, the DPP4 settings did not go far enough to support operational expenditure for flexibility services or to provide clear signals (e.g. pricing or incentives) for residential load management.
- **Consumer engagement:** Although the DPP4 process included formal consultation, it relied on traditional AMP submissions. It did not fully explore innovative ways to integrate consumer priorities into expenditure planning (such as direct consumer research or deliberative engagement).
- **Uniform approach:** The one-size-fits-all default path treated all networks uniformly, which may have under-delivered for those facing very different circumstances (e.g. high growth corridors, regions with greater resilience challenges, or networks at the forefront of DER uptake). More tailored approaches might be needed to address such variations.

2. Evolving Industry Context

The electricity sector is undergoing significant structural and technological change. Electrification is accelerating, driven by decarbonisation objectives and changing consumer behaviours (e.g. uptake of EVs and electrified heating). Meanwhile, distributed energy resources (DER), flexibility services, and new market platforms are reshaping how networks are planned and operated. Frontier Economics' recent review highlighted that these changes require a regulatory framework that is more adaptive, forward-looking, and aligned to a dynamic distribution environment.

The importance of an adaptive approach has been reinforced by the Government's response to the Frontier review. That response made clear that, while New Zealand's electricity market is progressing well in renewable generation, there are gaps in investment for firming and backup supply. The Government's commitment to targeted, non-disruptive interventions (such as Crown-led procurement for firming infrastructure and enhanced regulatory incentives for reliability) signals a clear expectation that all sector participants, including EDBs, will play a proactive role in supporting system security and reliability.

For EDBs, this means that the regulatory framework for DPP5 should:

- **Enable and incentivise anticipatory investment** particularly where electrification and DER uptake are expected to drive rapid changes in load and network requirements, so that capacity can be added in advance of bottlenecks.
- **Support operational and capital expenditure for flexibility services** and demand management ensuring networks have funding to pursue non-wire alternatives and use new technologies that enhance system reliability and resilience.
- **Closely align investment planning with Government objectives** for security of supply, affordability, and decarbonisation so that regulatory incentives and allowances support (and do not hinder) achievement of these broader policy goals.
- **Foster greater coordination between industry players** including EDBs, Transpower, the Commerce Commission, and the Electricity Authority to ensure that distribution-level investments complement transmission and market initiatives and contribute to national security of supply and climate resilience.
- **Take advantage of regulatory stability** the Government's decision against disruptive structural reforms provides a stable industry structure, so the focus can be on well-designed, targeted incentives within that structure to encourage the right investments at the right time.

We emphasize the need for a bipartisan Energy Strategy that sets clear, long-term objectives for decarbonisation, energy security, affordability, and consumer outcomes. The design of DPP5 should align with this strategy to ensure that regulatory settings drive or at least keep pace with the transformation of the energy sector.

In parallel, the New Zealand Infrastructure Commission (Te Waihanga) is undertaking long-term infrastructure planning and system coordination work. Aligning the DPP5 framework with both an Energy Strategy and the Infrastructure Commission's recommendations will yield a coherent, stable policy environment. This integrated approach would give networks the certainty needed

for efficient investment, enable more integrated planning across sectors, and ensure regulatory incentives are pulling in the same direction as national infrastructure priorities.

3. Timing and Input Methodologies (IM) Review

A key process issue for DPP5 will be the sequencing of the next Input Methodologies Review relative to the DPP5 reset. We consider that the IM Review should be completed before DPP5 commences (i.e. well before the 1 April 2030 start date for DPP5). Establishing updated IMs first will provide a stable foundation and allow EDBs to plan for the new regulatory period with certainty about fundamental settings.

Key areas we believe should be addressed in the IM Review include:

- **Trailing average cost of debt:** Moving to a trailing average approach for the cost of debt would better align allowed returns with actual financing practices and reduce volatility in the cost of capital. This in turn smooths price paths for consumers (avoiding sharp price swings due to interest rate cycles) while still ensuring companies can recover efficient debt costs.
- **Financeability:** We continue to support including a formal financeability test within the IMs to ensure the regulatory regime remains sustainable from an investment perspective. A financeability assessment (e.g. checking that a notional EDB can maintain certain credit metrics under the allowed revenue) would provide an early warning if the combination of settings might unintentionally strain networks' ability to raise capital. Ensuring financeability benefits consumers by maintaining companies' capacity to invest in reliability and growth when needed.
- **Uncertainty mechanisms:** Recent experience highlights that a series of incremental changes (for example, multiple small Code amendments by the Electricity Authority or new compliance obligations) may each fall below current reopener thresholds but cumulatively have a material impact on costs or required investments. This underscores the need for improved within-period uncertainty levers. We advocate reviewing and expanding the suite of uncertainty mechanisms so that networks can seek adjustments for significant unforeseen circumstances or policy changes during a DPP period. Similarly, as EDBs implement more demand-side management and pricing initiatives to defer capex, the regime should allow mid-period adjustments if actual uptake of these non-traditional solutions differs materially from forecast assumptions. In short, DPP5 should be adaptable to material uncertainties, ensuring consumers continue to receive timely and necessary network investment even as conditions change.

4. Flexibility and Non-Traditional Alternatives

To support greater use of flexibility and other non-traditional alternatives, DPP5 should provide appropriate operating expenditure allowances and incentives. Under current settings, operational spending for non-network solutions may be underfunded, creating an unconscious bias toward traditional capital expenditure. If this is not addressed, EDBs could be financially disincentivised from pursuing innovative, cost-effective options even when they deliver clear benefits for consumers.

For example, networks could defer expensive feeder upgrades by incentivising households to shift EV charging to off-peak periods or remotely managing hot water during peaks. However, without explicit funding for these demand management programs, these opportunities may

remain untapped. This is particularly important in the residential segment, where achieving low-voltage network benefits requires coordinating small devices (EV chargers, water heaters, batteries), a complexity very different from working with a single large industrial load. Given the scale of potential benefits, enabling frameworks are critical to unlocking and fairly compensating these flexibility services.

We encourage the Commission to consider a dedicated "flexibility expenditure" allowance or incentive mechanism under DPP5. Options include a ring-fenced allowance for demand-side initiatives or a specific incentive that rewards peak demand reduction. International precedent, such as Australia's DMIS (see Section 8), demonstrates that funding and incentives for non-network solutions can work effectively.

While the current IRIS model is financially neutral for retained efficiency gains, this neutrality only holds if non-network opex allowances are proportionate. Without adequate allowances, EDBs may face a financial disadvantage when investing in flexible, operational solutions, undermining the intended neutrality and discouraging adoption of innovative approaches. Empowering EDBs to invest in flexibility will optimise existing network capacity and reduce costs for consumers.

5. International approaches (Anticipatory Investment)

Internationally, particularly in Europe, there is a clear shift away from strictly "just-in-time" investment strategies towards more anticipatory approaches. This reflects a growing recognition that reactive investment is too slow and potentially more costly in the face of rapid electrification, increasing DER uptake, and evolving customer demand. Regulators in leading jurisdictions are explicitly allowing network operators to bring forward strategic investments where there is credible evidence of future need, even if immediate utilisation is modest. The aim is to avoid network constraints that could impede decarbonisation or economic growth, and to prevent inefficient stop-start capital cycles.

United Kingdom, Ofgem's RIIO-ED2 framework enables Distribution Network Operators (DNOs) to undertake anticipatory investments when supported by evidence such as local authority decarbonisation plans, forecasts of high EV uptake, or known upcoming developments. Through mechanisms like the Net Zero Re-opener and a Strategic Investment Fund, UK networks can seek approval (during the regulatory period) for capacity upgrades ahead of demand materialising. This ensures that network capacity will be ready when customers need it, avoiding the scenario where connection requests or new loads are stalled by insufficient infrastructure. It also ultimately reduces cost, by eliminating the inefficiency of piecemeal upgrades and by taking advantage of economies of scale in planned expansions that align with Net Zero targets.

Germany, regulators have recognised that traditional demand-led planning is too slow for the energy transition's needs. The German approach now includes long-term Network Development Plans (NEPs) with scenario-based outlooks over 10–15 years. Distribution and transmission operators can propose grid expansions based on anticipated growth in electrification (e.g. EVs, heat pumps) and renewable generation locations, rather than waiting for every connection application. This forward planning has been critical to integrating high levels of renewables and maintaining security of supply; Germany is building capacity in advance to ensure reliability and accommodate future demand patterns.

The Netherlands, regional grid operators have likewise shifted towards anticipatory investment, especially to support rapid electrification of heat and transport. Dutch regulations allow these operators to invest ahead of confirmed demand if there is strong evidence of future need (for example, provincial climate action plans or national EV adoption targets indicating certain growth

trajectories). By doing so, they aim to prevent the emergence of "no-go zones" for new load or generation areas where the grid would otherwise become a bottleneck.

Implications for DPP5: Adopting a forward-looking approach would enable EDBs to plan and build capacity in a way that balances efficiency with preparedness. DPP5 should include mechanisms to support anticipatory investment where justified. This would help avoid future network constraints, enable the timely connection of low-emission technologies (such as EVs, distributed solar, and storage), and deliver better long-term outcomes for consumers by reducing the risk of reactive, last-minute investments that are often more costly and disruptive.

By aligning regulatory settings with credible forecasts and strategic national objectives such as emissions reduction targets and regional development plans regulations can provide greater certainty to both networks and consumers during the energy transition. In practice, this could include DPP5 re-opener provisions or pre-approval mechanisms for certain growth-related projects.

We recommend that the Commission consider introducing an *electrification-driven re-opener* as part of DPP5. Under such a mechanism, if an EDB can demonstrate a clear step-change in forecast demand during the regulatory period (for example, a surge in EV uptake or new industrial developments aligned with climate goals), it could apply for additional capital allowances to bring forward network upgrades. In addition, the Commission could allow a portion of forecast capex to be *contingent on regional growth scenarios,* effectively providing upfront approval for prudent early investments once specific triggers are met.

By embedding these tools, DPP5 can ensure that when future demand is reasonably foreseeable, networks are empowered and incentivised to invest ahead of time. This aligns strongly with the Part 4 purpose, promoting outcomes such as adequate capacity, reliability, and innovation that deliver long-term benefits to consumers.

6. Consumer Outcomes and Regulatory Framework

While the Commission rightly emphasises keeping costs low for consumers, we believe DPP5 presents an opportunity to broaden the focus to a richer set of consumer outcomes. In practice, consumers evaluate the value of their electricity service not just by its cost, but by its quality, reliability, and the extent to which it meets their needs and expectations (including new needs like supporting EV charging or participating in clean energy programs). The regulatory framework should evolve to reflect this balanced perspective. Specifically:

- **Balancing "lowest cost" with quality and resilience:** A low-cost regime remains important, but consumers also expect a high level of reliability, power quality, and resilience to events (as well as fairness in how costs are shared). For example, recent severe storms and events such as Cyclone Gabrielle in 2023 have shown that consumers highly value a resilient network and rapid restoration of service, even if maintaining these capabilities entails additional investment. DPP5 should aim for efficient costs and adequate service levels, rather than pursuing cost minimisation in isolation.

- **Strengthening consumer engagement:** Meaningful engagement with consumers can build trust and ensure that network investment plans reflect what customers want and need. This could involve moving beyond the traditional AMP consultation process to explore new approaches. For instance, EDBs might establish customer advisory panels, conduct regular surveys, or focus groups, or use deliberative forums to gather consumer input on service

priorities and willingness-to-pay for improvements. By DPP5, we expect that more innovative forms of engagement will help networks tailor their expenditure to consumer preferences (e.g. balancing reliability vs. price or investing in sustainability initiatives) and demonstrate community support for proposed investments.

- **Differentiated regulatory treatment:** The one-size-fits-all nature of the current DPP regime can be limiting. Different networks face different challenges some might be experiencing rapid load growth and DER connection requests, while others face higher risk from natural disasters or have an older asset base needing renewal. The DPP framework should be flexible enough to accommodate such differences. This could mean, for example, allowing targeted adjustments or additional allowances for a network that is demonstrably facing unique drivers (like an urban network with an EV cluster requiring fast upgrades, or a rural network needing extra resilience against storms). Differentiated treatment could help ensure each EDB can deliver the outcomes its consumers require, rather than all being squeezed into the same model regardless of circumstances.
- **Dynamic incentives for DER and flexibility:** A narrow focus on cost-cutting might inadvertently discourage investments that are essential for the future such as systems to integrate DER or deploy flexibility for peak management. The regulatory framework should evolve incentives to support innovation and the use of new technologies. For example, if an EDB invests in an advanced network management system or battery to manage demand, the benefits (reduced future costs, improved service) should be recognized, not penalised, by the regime. In short, DPP5 should incentivise least-total-cost outcomes over the long run, which can include up-front spending on smart solutions that reduce the need for traditional capex later.
- **Affordability and hardship:** Affordability remains a core aspect of consumer outcomes. While pursuing new investments, we must ensure electricity stays affordable, especially for vulnerable customers. The regulatory regime can support this by allowing or encouraging targeted measures for instance, tariff structures or programs to assist those in energy hardship. An outcomes-focused DPP5 would explicitly acknowledge that consumer welfare includes protecting those least able to pay, not just achieving an average low price.
- **Transparency and comparability:** Greater transparency in performance and plans, and comparability across EDBs, will empower consumers and stakeholders. DPP5 could incorporate improved disclosures or reporting of metrics that matter to consumers (like the frequency and duration of outages, or the uptake of new technologies). Enhanced comparability can drive a healthy performance culture without imposing undue regulatory burden for example, standardising the way certain data is reported in AMPs or information disclosures so stakeholders can easily benchmark service and efficiency levels across companies.

Broadening the focus in these ways is fully consistent with the Part 4 purpose of the Commerce Act, which is to promote the long-term benefit of consumers. By ensuring that reliability, innovation, and fairness are appropriately incentivised alongside cost efficiency, the DPP framework can promote outcomes akin to those seen in competitive markets where companies strive to meet customer needs (quality, choice, innovation) as well as keeping prices reasonable.

DPP5 that balances cost with consumer outcomes will better serve consumers' long-term interests.

7. Align Regulatory Framework to Support Service Quality

As the operating environment for electricity distribution evolves, maintaining and enhancing service quality will require a more adaptive and practical regulatory approach. Electrification and DER integration are introducing new loads and power flows, while more frequent extreme weather events (driven by climate change) are posing greater challenges to network resilience. At the same time, customer expectations are rising in today's digital, always-on world, consumers have lower tolerance for outages and expect timely communication and rapid restoration when issues occur.

The current DPP framework has been effective at preserving historical reliability performance through compliance standards, but it remains backward-looking, and compliance based. Networks are primarily incentivised to avoid penalties (by staying within SAIDI/SAIFI limits), rather than being encouraged to innovatively improve reliability or resilience. To ensure networks can continue to meet evolving consumer expectations and support the transition to a low-emissions economy, the regulatory framework needs to provide greater flexibility and stronger incentives for service quality improvements. We see several areas for enhancement:

- **Regulatory flexibility for quality-related investment:** Under the current DPP, baseline expenditure allowances are set ex ante and do not readily adjust for emerging service quality needs within the regulatory period. This rigidity can be problematic; for instance, the widespread damage and outages caused by Cyclone Gabrielle in 2023 underscored how unforeseen events can necessitate significant resilience investments on short notice, yet the DPP regime offers limited avenues to fund such efforts mid-period. We propose introducing more flexible mechanisms such as targeted quality/reliability allowances, contingent expenditure triggers, or on-demand reopener options. These tools would let networks undertake justified reliability or resilience investments during the period (with Commission oversight), rather than deferring all such responses to the next reset. By using predefined criteria (e.g. if outage levels or risk indicators exceed a certain threshold, or if a new risk emerges), the Commission could allow adjustments that enable networks to maintain service standards in the face of changing conditions.

- **Reopeners and adjustments for service quality:** Currently, DPP reopener provisions are quite narrow focused on situations like unforeseen major capex projects or new legislative requirements. We recommend expanding the scope of reopeners to explicitly cover material service quality or resilience issues. For example, if reliability metrics deteriorate due to factors outside the EDB's control (or conversely, if an opportunity arises to improve reliability via a new project), there should be a clear process to seek a mid-period adjustment. Internationally, regulators have adopted this approach; Ofgem's RIIO framework in the UK includes reopeners that networks can trigger for additional reliability investments given evidence of need. A similar approach in DPP5 would allow more responsive action. Importantly, any such reopeners would be subject to rigorous justification ensuring that consumers only fund additional spend where it is demonstrably in their interest (e.g., to avoid prolonged poor performance or to quickly implement resilience improvements that will save costs in the long run).

- **Balanced incentives for reliability and customer service:** New Zealand's regime currently relies on enforcing minimum standards (through SAIDI/SAIFI limits) and on cost efficiency incentives, but it offers no direct rewards for exceeding service quality targets. DPP5 should introduce symmetrical incentive schemes for reliability (and potentially other aspects of service, like customer communication or power quality). In practice, this could mean an upside incentive where companies earn revenue or quality-linked payments if they beat certain performance benchmarks (for instance, if they achieve fewer outages or faster restoration than the standard). Such incentives would encourage companies to invest in and adopt practices that improve reliability beyond the bare minimum, knowing that customers and the company share the benefits Downside penalties for non-compliance would remain as a safeguard. By making reliability a performance area where excellence is rewarded, the Commission would better align regulatory incentives with consumer values. Customers would benefit from fewer or shorter outages and a more resilient network.

  Recommendation: Strengthening the DPP framework to support service quality will involve a combination of these measures. We recommend that the Commission implement the following in DPP5:

- **Introduce flexible within-period mechanisms**: such as predefined allowances or contingent projects to enable targeted reliability/resilience investments during the regulatory period when justified by new information or events.
- **Expand reopener provisions**: include triggers for service quality and resilience-related expenditure, creating a clear pathway for mid-period adjustments in extraordinary circumstances.
- **Implement balanced quality incentives**: move to a scheme that rewards performance on reliability or other consumer service metrics (in addition to penalising non-performance), thereby actively encouraging investments and practices that deliver improved consumer outcomes.

These enhancements would provide the necessary regulatory tools for EDBs to respond to emerging challenges, maintain, or improve reliability, and deliver long-term value to consumers in a rapidly changing environment. Notably, they do so while preserving the discipline of efficiency: networks would still need to justify any additional spend or earn any rewards through genuine performance gains, aligning company incentives with consumers' interests in better service.

8. International Lessons and Incentives for a DSO Transition

Lessons from leading international markets show how well-structured incentives can drive innovation and flexibility, and how regulatory frameworks are evolving to support the transition from a passive Distribution Network Operator (DNO) model to an active Distribution System Operator (DSO) role. Below, we highlight a few examples and their relevance to New Zealand:

United Kingdom – RIIO-ED2: The UK's latest electricity distribution price control (RIIO-ED2, which runs 2023–2028) places strong emphasis on enabling decarbonisation at least cost. It provides targeted incentives for non-network solutions and supports strategic investments ahead of demand. Key features include:

- **Strategic investment allowances:** Companies can obtain funding for anticipatory investments where there is clear evidence of future growth (ensuring networks are ready to accommodate EVs, heat pumps, etc., without having to wait for constraints to occur).
- **Explicit flexibility incentives:** DNOs are rewarded for utilising demand response, distributed generation, and storage to manage network constraints cost-effectively. This reduces the need for traditional reinforcement by tapping into market-based solutions.
- **Outputs-based regulation:** The framework focuses on outcomes like capacity released or customers connected on time, rather than prescriptive inputs. This gives companies the freedom to meet targets through innovative means (be it network build or flexibility procurement).
- Crucially, RIIO-ED2 pushes DNOs to evolve into DSOs. It includes financial incentives and new licence obligations for DNOs to actively coordinate local flexibility markets, improve network visibility (through data and monitoring), and facilitate DER integration. In effect, the UK is incentivising its distributors to operate their grids in a more active manner, akin to a system operator at the local level, because this is seen as necessary to achieve Net Zero efficiently.

  Australia – Demand Management Incentives and REZs: In Australia, the Australian Energy Regulator (AER) has implemented mechanisms to encourage non-network solutions and better system planning:

- The Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance (DMIA) provide Australian distribution companies with additional funds and rewards for undertaking demand management initiatives. For example, an Australian distributor might receive incentive payments for successfully reducing peak demand via a customer battery program instead of building a new substation. These schemes effectively counteract the natural bias towards capital expenditure by making demand-side alternatives financially attractive.
- Renewable Energy Zones (REZs): While not an incentive scheme per se, the REZ concept in Australia shows how aligning regulatory and planning processes can streamline investment. REZs designate areas for concentrated renewable generation development, and coordinate transmission and distribution upgrades to support them. This planned approach reduces connection bottlenecks and optimises the build-out of network capacity. For NZ's distributors, a parallel might be coordinating network upgrades with anticipated solar or wind developments in certain areas, to efficiently integrate new generation.

Application to New Zealand: These international examples offer valuable insights as we design DPP5 to facilitate the industry's transition:

- **Reward outcomes, not just inputs:** The regulatory regime should reward networks for delivering the results consumers and policymakers care about (e.g., peak demand reduction, faster connections for new load, improved reliability, integration of DG) rather than solely focusing on cost controls. An outcomes-based approach encourages innovation, as companies have freedom to meet targets in the most efficient way.

- **Equalise opex and capex solutions:** DPP5 should place operational solutions (like demand response programmes) on an equal footing with capital solutions. This could mean continuing to refine the Incremental Rolling Incentive Scheme (IRIS) to neutralize any bias and introducing explicit allowances/incentives as noted in Section 4. Removing the disincentive to spend on opex for non-network alternatives will unlock significant efficiencies.
- **Support DSO capability-building:** As EDBs take on more complex roles (active real-time management of networks, market facilitation, data sharing), they may need to invest in new systems, IT infrastructure, and skills. Transitional incentives or allowances might be warranted to build these capabilities for instance, funding for advanced distribution management systems or pilot programs with aggregators. Such investments benefit consumers by enabling more dynamic and efficient network operations.
- **Clarify roles and coordination:** As we introduce new mechanisms, it is essential to clearly delineate responsibilities between EDBs and other parties (the national system operator Transpower, the Electricity Authority, retailers/aggregators, etc.). This clarity will ensure that efforts are not duplicated and that private investment in flexibility is encouraged alongside network initiatives. While much of this coordination is outside the DPP's scope, the Commission can play a role (via forums or guidance) in encouraging a cohesive ecosystem where, for example, price signals from the EA's market initiatives align with the incentives in DPP5.

We recommend the Commission consider these international approaches as part of the IM Review and DPP5 design. Several could be adapted to New Zealand's context for instance, a small-scale innovation fund or demand management incentive in DPP5 could be a low-regrets step to pilot the effect of flexibility incentives, and a basic output incentive (like rewarding any demand reduction achieved beyond a threshold) could be trialled. It will be important, however, to tailor any adopted measures to our scale and avoid undue complexity. The goal is a proportionate set of incentives that nudge EDBs towards the future (active network management, innovative solutions) while maintaining the core focus on efficiency and reliability.

9. Asset Management Plans (AMPs)

Asset Management Plans are a cornerstone of the regulatory disclosure regime, intended to provide transparency around EDBs' investment planning, asset maintenance and replacement strategies, risk management, and service level commitments. Over time, AMPs have improved and expanded. However, as the industry changes, there is an opportunity to make AMPs more useful and efficient for both regulators and stakeholders. We see several improvement areas:

- **Sharper, strategic content:** AMPs can sometimes be lengthy, with extensive descriptive or historical content. We suggest future AMPs focus more on forward-looking analysis clearly explaining upcoming investment drivers (like demand growth hot-spots, DER uptake, aging asset replacements), the options considered (including non-traditional options), and the rationale for chosen plans. Emphasising the key trade-offs and risk assessments in plain language would make AMPs more insightful documents, rather than compliance exercises. For example, rather than a generic description of all assets, an AMP section could highlight "Key Decisions for the Next 5 Years" covering where the company will spend major capex and why (with references to sections for detail).

- **Alignment with broader policy and plans:** AMPs should link to national and regional plans. If there is a national Energy Strategy aiming for certain outcomes by 2035, or local council development plans signifying new subdivisions or industries, the AMP should show how the network's plan caters to these. This could include referencing specific government targets (like EV number projections or emissions goals) and demonstrating that the network's forecast and investments are consistent. Improved coordination with government agencies, local councils, and the Infrastructure Commission could be facilitated via the AMP process for instance, requiring EDBs to consult those bodies for input into their future scenarios.
- **Integration of flexibility and non-wire alternatives:** We propose that AMPs be used to transparently show how the EDB is considering and using flexibility. Instead of just a capex plan, an AMP could include a section on "non-network initiatives," listing any demand response contracts, trials of battery usage, or use of customer photovoltaic systems to support the network. Additionally, when outlining growth projects, the AMP should state whether non-wire options were assessed and why the chosen solution is preferred. This will reassure the Commission and consumers that the network is actively pursuing least-cost solutions in line with DPP expectations.
- **Streamlined and standardised data:** There is scope to standardise certain AMP content to ease comparability and reduce duplication. For instance, having a common set of tables or charts (with prescribed formats) for demand forecasts, reliability projections, or asset health indicators would make it much easier to compare across EDBs and track trends over time. By extracting such data to a template, it would also allow the narrative part of AMPs to be more focused on strategy and explanation, rather than each company deciding its own format for basic information. The Commission might consider developing an AMP template or at least guidelines for key content that every AMP should include in a consistent way.
- **Improved consumer accessibility:** Finally, the AMP (or a companion document) could be made more accessible to consumers. While an AMP is a technical document, EDBs could publish a short plain English summary of their AMP for their customers, highlighting what projects are planned, what service levels are targeted, and what it means for consumers' experience. Modern tools like online dashboards or interactive maps showing planned upgrades can also engage the public. The more consumers understand and engage in these plans, the more support EDBs will have for necessary investments and the more alignment there will be between consumer expectations and company actions.

Adopting these improvements would make AMPs a more powerful tool in DPP5. A more strategic and standardised AMP will reduce compliance cost (focusing effort on what matters), improve the Commission's ability to scrutinise and benchmark plans, and strengthen the link between disclosed plans and the expenditure allowances that the Commission sets. We encourage the Commission, as part of DPP5 preparations or the parallel Information Disclosure review, to update the AMP requirements/guidelines to incorporate these changes. For example, the Commission could require scenario-based demand and EV uptake forecasts in AMPs, inclusion of a dedicated section on non-network solutions, and submission of key forecast data in a defined format. These steps would ensure that by the time of the DPP5 reset, the Commission has more consistent and forward-looking information from all EDBs, facilitating a smoother and more evidence-based setting of price-quality paths.

10. Next Steps

To support effective development of DPP5, we recommend the Commission take the following steps over the coming months and years:

- **Publish a DPP5 roadmap:** Provide a clear timeline and roadmap showing how the DPP5 process will unfold and how it will interface with related workstreams (e.g. any further IM amendments, the Electricity Authority's distribution pricing/transportation pricing initiatives, consumer engagement projects, etc.). This should include key milestones for stakeholder input and indicate how issues might be sequenced for instance, identifying topics that may be dealt with via interim measures (reopeners or IM adjustments) ahead of 2030 versus those slated for the DPP5 decision. A transparent roadmap will help all parties prepare and participate effectively.

- **Coordinate with other agencies:** Initiate early conversations with other relevant agencies notably the Electricity Authority (for market and pricing matters) and MBIE (for energy policy and the forthcoming Energy Strategy) to create an integrated regulatory workplan. This cross-agency coordination can ensure, for example, that incentives for flexibility in DPP5 are complemented by the market rules the EA is developing, or that any government policy directions are considered in the DPP design. A united approach will reduce duplication and conflicting signals.

- **Convene targeted workshops on key topics:** Before issuing a formal Issues Paper for DPP5, hold targeted workshops or technical working groups on specific challenge areas. We suggest sessions focused on: (i) connections-driven capex and anticipatory investment (to discuss how to fund upgrades for EVs and growth proactively); (ii) flexibility and incentive mechanisms (to delve into options like opex incentives, quality incentives, etc., potentially with international experts); (iii) asset management plans and forecasting (to refine expectations for information quality); (iv) utilisation and quality of service (to consider reliability trends, major event responses, and appropriate targets/incentives). Engaging stakeholders on these topics in depth will flush out issues and options, enabling a more informed Issues Paper and draft decision.

- **Maintain dialogue on financeability and investment:** Continue structured engagement with industry and investors on capital market conditions, especially as they relate to EDB financeability and the ability to fund the upcoming wave of investments. This could include discussing whether parameters like the WACC percentile or indexing approach remain appropriate, and monitoring if emerging DPP5 proposals might raise any financeability red flags. Early identification of such issues (and potential mitigations like transitional mechanisms) will ensure DPP5 decisions support continued investment in the sector at reasonable cost.

- **Develop new DPP5 mechanisms in collaboration:** As part of the pre-formal consultation work, begin identifying and designing any new regulatory mechanisms needed for DPP5. For example, work with industry experts to flesh out how an "anticipatory investment re-opener" or a flexibility expenditure allowance might function, including eligibility criteria, evidence requirements, and consumer safeguards. By prototyping these concepts early (through consultation or even trial in a controlled way), the Commission can evaluate their feasibility

and fine-tune them before the DPP5 determination. This collaborative development will increase acceptance and reduce the risk of unintended consequences.

- **Enhance consumer engagement guidance:** Consider working with EDBs and consumer representatives to establish best-practice guidance for consumer engagement in the context of DPP/CPP preparation. This might involve the Commission outlining expectations or options for how EDBs gather consumer input (for example, encouraging the use of independent customer panels, surveys, or regional forums when proposing major expenditures). By setting a sector-wide benchmark for consumer engagement, the Commission would signal the importance of the "consumer voice" in DPP5 and help ensure a more consistent, robust approach by all EDBs.

These steps will help ensure that the journey to DPP5 is well-planned, inclusive, and aligned across the sector. We believe that with thorough preparation and collaboration, the DPP5 reset can achieve the regulatory balance needed for the 2030s.

11. Conclusion

We support the Commission's proactive approach to engaging on DPP5 and believe this upcoming reset is a pivotal chance to modernise the default price-quality path regime. By implementing the enhancements discussed from enabling flexibility and anticipatory investment to focusing on consumer outcomes and resilience the Commission can ensure DPP5 delivers a framework that is adaptive, future-focused, and firmly in the long-term interests of consumers. Crucially, these changes can be made while retaining the core strengths of the current regime (its relative simplicity and focus on efficiency). In fact, updating the regime in this way will better fulfil the Part 4 purpose: it will promote outcomes (innovation, reliability, efficient investment timing) that consumers value, in addition to cost-efficiency.

We appreciate the opportunity to provide this input and welcome further engagement. We are available to participate in future consultations, workshops, or working groups to elaborate on our suggestions and to help develop workable solutions.

This submission does not contain any confidential information and may be published. Should the Commission require additional detail or case studies (for example, on the operational measures discussed), we would be happy to provide further information.

Nā māua noa, nā

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[redacted]