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IM Review Forum CPP Requirements

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Key Topics

1. Pre application process
2. Information to be included in a CPP application
3. Post application process
4. Complexity and compliance costs

ENA Submission (11 April 2014) 'Feedback on setting Orion's customised price-quality path' sets out detailed suggestions for changes to the CPP IM

Pre Application Process

Objectives:

- Improve quality of CPP applications
- Eliminate unnecessary costs and complexity
- Reduce uncertainty

Solutions:

- Remove unnecessary constraints in the information and timing requirements for verification, consultation, review, audit
- Better targeting of roles of verifier/independent engineer/auditor
- Retain verifier for post application review process (avoids rework)
- Clarify consultation expectations, and consider potential overlap with post application consultation
- Establish the DPP counterfactual (end of CPP, price path, quality)

Information to be included in a CPP Application

Objective:

- Ensure information is relevant to the applicant and stakeholders, including the Commission – reduce level of prescription

Suggestion – CPP proposal to include:

1. Reasons for proposal
2. Prioritisation information
3. Duration of regulatory period
4. Consistency with CPP evaluation criteria
5. Price path proposal (incl. IM compliant model, data, assumptions, forecasting approaches)
6. Expenditure: actual & forecast (projects/programmes)
7. Quality standard proposal
8. AMP (based on ID AMP, with explanations for capex, opex & demand forecasts, plus linkages to service outcomes)
9. Customer consultation
10. Verifier/audit/certification

Post Application Process

Objective:

- Ensure process is transparent, targeted, cost effective, robust

Observations from Orion CPP:

- Summarising a complex proposal is challenging
- Must be balanced, addressing all aspects of the proposal
- Use of expert reports – transparency (TOR), adequately consider views of applicant
- Tension between short and long term outcomes, ie: within and beyond CPP period
- Avoid opportunity to reinterpret IMs
- ‘Top down’ assessment inevitably leads to ‘bottom up’ investigation
- Information evolves during the assessment period

Complexity and Compliance Cost

Objective:

- Reduce costs and complexity
- Make CPP more viable alternative to DPP

Solutions (more details in submission):

- Fix anomalies, errors, ambiguities in IMs
- Reduce levels of disaggregation in valuation and tax IMs for CPPs
- Comprehensively review schedules to IM:
 - Schedules B & C (cost allocation)
 - Schedules D & E (capex and opex info)
 - Schedules F & G (verifier)
- Allow for additional costs to be recovered