

20 December 2022

Charlotte Reed

Input Methodologies Manager

Commerce Commission

PO Box 2351

Wellington 6140

Email: im.review@comcom.govt.nz

Feedback – Price-quality path in-period adjustment mechanisms workshop held on 29 November 2022.

Introduction

1. Orion appreciates the opportunity given to industry stakeholders by the Commerce Commission (the Commission) seeking feedback on in-period adjustment mechanisms following the workshop held on 29 November 2022¹.
2. The Commission subsequently issued a list of questions regarding the reopener process, reopener thresholds, type and extent of reopeners, other in-period adjustment mechanisms and CPP mechanism on 5 December,² and email dated 6 December 2022.

Summary

3. We have reviewed the request which was published on the Commerce Commission's website.
4. This submission provides specific issues which Orion has identified as opposed to answering the list of questions presented by the Commission..

Other Feedback

5. In principle, Orion supports the Electricity Network's Association's submission.

¹ https://comcom.govt.nz/_data/assets/pdf_file/0034/299266/Reopener-workshop-Discussion-slides-29-November-2022.pdf

² https://comcom.govt.nz/_data/assets/word_doc/0019/300493/IM-review-2023-In-period-adjustment-mechanisms-Workshop-follow-up-questions-5-December-2022.docx

Purpose of Part 4 of the Act

6. *“The purpose of this Part is to promote the long-term benefit of consumers in markets where there is little or no competition by promoting outcomes that are consistent with outcomes produced in competitive markets such that suppliers of regulated goods or services”.*³
7. The industry is facing a number of challenges around increased expenditure relating to decarbonisation and security in the coming years. EDBs require a level of flexibility to be innovative and complying with other regulators through in-period adjustments while aligning with the long-term benefit of consumers.

Feedback on in-period adjustment mechanisms.

8. Orion has been exploring non-network solutions in order to bolster the resilience of our network and ensure ongoing quality of supply limits.
9. We refer to the current re-opener for an unforeseeable major capex project in the Input Methodologies⁴, point 4.5.5A (h), which exceeds either:
*“(i) 1% of that EDB’s forecast net allowable revenue for the DPP regulatory period in which the asset is forecast to be commissioned; or
(ii) two million dollars;”*
10. Orion has had a couple of projects which we consider would be unforeseen projects and would not meet the \$2M threshold to be eligible for a re-opener. We suggest that the inclusion of an aggregated approach for similar or interdependent (e.g., decarbonisation projects) being eligible for a re-opener. We also note that smaller EDBs will have difficulty in meeting this threshold for their projects with the existing minimum limits.
11. Orion has been considering the Authority’s approach to granting or extending existing exemptions from Code provisions. More recently, the Electricity Authority is looking to decline extensions and expecting Orion to invest in the network to reduce or eliminate the need for exemptions even though the granting of an exemption has minimal impact on reconciliation but does provide a cost effective form of non-network alternative .

³ Section 52A <https://www.legislation.govt.nz/act/public/1986/0005/latest/whole.html#DLM1685404>

⁴ https://comcom.govt.nz/_data/assets/pdf_file/0017/60542/Electricity-distribution-services-input-methodologies-determination-2012-consolidated-20-May-2020-20-May-2020.pdf

- One of these exemptions relates to a connection arrangement and pre-dates the inception of the Electricity Industry Participation Code⁵ (The Code). We foresee these costs to exceed \$1M depending on the work required to maintain supply to one customer (two ICPs) i.e., the cost vs benefit, the cost to comply with the Code is not in the long-term interest of consumers.
 - The other is an interconnection with a neighbouring lines company which will require capex (approximately \$50k capex for metering) and ongoing opex (retailer arrangements for reporting minimal volumes to the NZX, auditing and other related compliance costs).
12. These cases are not covered by the current revenue provisions and will result in increased opex as well as capex.
13. We are also unable to make use of the Innovation Allowance⁶ to look into interim non-network solutions to replace the interconnection and avoid or defer a capex solution and provide customers on that part of Orion's network with a reliable and secure supply of electricity.
14. We suggest that the Commission considers a Contingent Allowance where such unforeseen expenditure is imposed on lines companies due to legislative or market changes resulting in Capex and ongoing Opex (or a Totex) expenditure.

Concluding Remarks

Thank you for the opportunity to provide feedback. We do not consider any part of this feedback as confidential.

If you have any questions or queries or aspects of the submission which you would like to discuss, please email rob.tweedie@oriongroup.co.nz.

Yours sincerely

Rob Tweedie
Regulatory Manager

⁵ <https://www.ea.govt.nz/assets/TheCodeParts/FULL-MERGED-CODE-3-May-2022.pdf>

⁶ Page 76, \$825k, https://comcom.govt.nz/_data/assets/pdf_file/0029/191972/2019-NZCC-21-Electricity-distribution-services-default-price-quality-path-determination-2020-27-November-2019.pdf