

Price-quality path in-period adjustment mechanisms workshop

Questions regarding reopener process, reopener thresholds, type and extent of reopeners, other in-period adjustment mechanisms and CPP mechanism

For use by external stakeholders

This document provides questions to guide feedback on our 29 November 2022 workshop “Price-quality path in-period adjustment mechanisms”. These questions were [published in advance](#) on 23 November 2022 to guide preparation for the workshop and formed the basis for discussion at the workshop on 29 November. We have refined the questions following what we heard at the workshop, but not removed any that were on the previously published list. These questions are intended to inform our review of the Part 4 input methodologies (IM Review).

The slides we published before the workshop are available [here](#). The recording of the workshop will be published [here](#). It would be useful if you could take these into account when answering the questions that follow.

The [framework paper](#) published in October 2022 outlines the core framework for our decision-making for the IM Review. We recommend using the framework (especially the overarching objectives of the IM Review it sets out), in developing your feedback.

Completed forms should be sent to im.review@comcom.govt.nz, with ‘Price-quality path in-period adjustment mechanisms workshop – [your submitter name]’ in the subject line of the email. Please provide us with your feedback by 5pm Tuesday 20 December 2022.

If you have supporting documents that you consider would improve our understanding of the issues, please attach them with your response and reference them in your feedback below.

All completed forms and supporting documents provided to us in this context will form part of the record for the IM Review. We intend to publish completed forms and supporting documents provided to us to enable other stakeholders to engage with them throughout the IM Review. Any request that we not publish content in a completed form or supporting document provided to us must be clear and explicit with reasons supporting why that content is confidential or commercially sensitive. We will consider any such requests on their merits.

Note: “Reopener” as referred to in the following questions is a colloquial term for “in-period adjustment mechanisms” and “reconsideration of the price-quality path”.

A. Questions relating to reopener process

These questions relate to content on [workshop slides 20-25](#).

A1. Would our proposed updated reopener process address any concerns you may have on the current perceived lack of clarity in the reopeners?

Answer:

Relative to the existing approach, the proposed process provides more clarity about the information/evidence the applicant needs to include and the Commission’s rationale for its decision.

The preliminary evaluation step is an excellent idea. It will support a cost-effective process for the Commission and EDBs by ensuring applications have a reasonable chance of success before the applicant goes to the effort of pulling together more detailed information.

EDBs who have applied under the existing reopener process have indicated that the process is too long and the assessment duration is uncertain. So, it is pleasing that the Commission is looking at ways to create a simpler and shorter process.

As we haven’t prepared a re-opener application, we don’t have first-hand experience to inform a more detailed response to this question.

A2. What do you think of our current thinking on updating the process steps for a reopener, broadly in line with the equivalent process under the Fibre IMs with relevant Part 4 reopener process additions?

Answer:

A3. As our current thinking is based largely on our review of the EDB reopeners, with reference to the Fibre reopener provisions, are there any significant variations to this process that we should consider for Gas or Transpower IMs?

Answer:

A4. From a workability point of view, how significant is the overhead to produce information for a reopener application? Could suppliers repurpose or use existing business case justification information that they already produce internally for reopener applications?

Answer:

We haven’t prepared a re-opener application, so we don’t have any insights into the cost and effort involved in preparing an application.

We agree that Board or similar internal reports can be easily repurposed, and will adequately explain the needs case, and therefore would help reduce the cost of preparing an application. Time will tell if this is adequate for meeting the Commission's requirements.

- A5. Note that this topic was not discussed at the workshop:
We are making refinements to DPP reopener IMs to reduce ambiguity, improve clarity and consistency. Please provide examples of areas that could be improved in this respect.**
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Answer:

We are interested to know how a cost variation for a project or programme from initial estimate to final cost could be accommodated.

B. Questions relating to reopener thresholds

These questions relate to content on [workshop slides 26-29](#).

- B1. Are the current reopener materiality thresholds still appropriate? If not, please explain why.**
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Answer:

The current materiality thresholds are largely appropriate. However, we do have major projects where the expenditure quantum has the potential to change by more than the \$30m pa cap.

For Powerco, uncertainty of this magnitude can occur when the project has a cross-over between Powerco and Transpower. For example, there is a project in the Bay of Plenty where either Powerco or Transpower could do most of the upgrade work. Our AMP currently makes some reasonable assumptions on this. However, should the boundary line between Powerco and Transpower work change, the project cost increase could exceed the \$30m cap.

Increasing the maximum dollar cap or introducing streamlined single-issue CPPs is the most efficient way to deal with this type of expenditure uncertainty, particularly when there is a clear and obvious justification for the expenditure.

- B2. Some submissions on our Process and Issues paper raised that the cost of more than one project should be able to be considered to meet the lower DPP reopener threshold level. Our current thinking is that projects should only be considered for a cumulative application if each project is substantive, and the projects are part of the same programme or relate to the same scenario. What are your views on this?**

Can you please provide examples of:

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- **where you would have applied for a reopener, if projects could have been considered together?**
 - **potential future situations where you think you might have a number of projects, the combined cost of which will meet the current threshold?**
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Answer:

We support cumulative applications. Projects should be considered together if they are part of the same programme/project.

C. Questions relating to the type and extent of reopeners

These questions relate to content on [workshop slides 30-35](#).

C1. Could you please provide feedback on our initial assessment of coverage provided by our existing DPP reopeners of the scenarios from submissions on the Process and Issues paper?

Answer:

It isn't clear if the existing reopeners cover incremental demand growth. Workshop slide 31 states that incremental demand growth "appears to be covered by the Foreseeable Major Capex Reopener for demand growth above a certain threshold". However, paragraph 4.39 of the DPP3 final reasons paper suggests incremental demand growth is out of scope when it says, "we do not intend for this mechanism to cover general growth in demand due to decarbonisation, such as high uptake of electric vehicles".

Electric vehicle charging is one of the decarbonisation scenarios that will significantly impact EDB expenditure in the next decade and must be accounted for in the DPP reopeners. Including demand growth from decarbonisation, particularly from the connection of low-carbon technologies like EVs, is also consistent with the aim of the reopeners in paragraph 4.37 of the DPP3 final reasons paper:

"The aim of the reopeners is to ensure, where possible, that distributors are able and incentivised to undertake the investment required to meet the one-off sporadic and changing needs of external stakeholders. In particular, this will ensure that distributors can connect and manage significant new demand and low carbon technologies as New Zealand increases its focus on decarbonisation, while maintaining network reliability and meeting the long-term interests of consumers."

C2. What are the electrification scenarios that you consider need to be accounted for in DPP reopeners, and why?

Answer:

The scenarios that will likely have the most impact on EDB expenditure and must be accounted for in the DPP reopeners are electric vehicle charging and process heat electrification. The gas transition will also be significant for some EDBs if electricity is

chosen over renewable gas options. If the choice is electrification, it's not clear if the scale and timing of would require a re-opener or be more gradual.

C3. Process and issues paper submissions suggested that new or expanded reopeners may be needed to address the higher levels of general uncertainty anticipated. Please provide specific examples of scenarios to enable us to assess coverage provided by our current reopeners.

Answer:

C4. Is expenditure relating to disaster readiness, cyber security, greater use of digitalisation and data able to be foreseen and is it within the control of suppliers? If not, please explain.

Answer:

Expenditure related to cyber security and greater use of digitisation and data is foreseeable, but the scale and timing of this expenditure is uncertain. To some extent, these costs are outside the control of EDBs; therefore, there is a risk that the efficient and prudent level of expenditure varies significantly from an EDB's forecast within a reset period.

Wellington Electricity's CPP application demonstrates how new (unforeseen) evidence can be presented that changes the assessment of requirements. It could be useful for the Commission to re-run that type of scenario/information through the re-opener process. This could apply to capex or opex types of expenditure.

C5. Note that this topic was not discussed at the workshop: We are reviewing whether DPP reopeners should provide more scope for opex, for example:

- **there may be scenarios where an opex solution might be more cost-effective than a capex solution**
- **opex that is consequential to capex**

Can you tell us about any other scenarios which might be appropriate for opex to be included in DPP reopeners?

Answer:

As noted in C4 – the trigger for changes to costs could affect opex or capex.

D. Questions relating to other in-period adjustment mechanisms

These questions relate to content on [workshop slides 36-38](#).

D1. Can you identify circumstances in which suppliers might want to make use of a potential DPP contingent project reopener?¹ Please explain why the current reopeners are not suitable in those circumstances.

Answer:

D2. Which scenarios could we consider including under a DPP wash-up mechanism, and why?

Answer:

D3. Do you consider that there may be value in us considering a range of in-period adjustment mechanisms, eg, reopeners used for larger suppliers and as part of the DPP, use-it-or-lose-it allowances² for smaller suppliers, and if so, why?

Answer:

D4. Can you identify any other potential in-period adjustment mechanisms which you think we should consider? What situations would this cover, which are not covered by current reopeners or other mechanisms we are considering as outlined in questions D1-D3?

Answer:

E. Questions relating to the CPP mechanisms

These questions relate to content on [workshop slides 39-42](#).

E1. What are the barriers or challenges of applying for a CPP?

Answer:

Barriers or challenges of applying for a CPP include:

- The substantial effort and cost involved in preparing and verifying the application.
 - Providing sufficient justification in a CPP application for investments where the future demand and services are uncertain – especially with decarbonization-driven changes. Investment cannot wait until there is complete certainty – otherwise the EDB risks being a roadblock for New Zealand’s decarbonisation plans
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¹ A contingent project is a project that has been listed as a ‘contingent project’ with an associated trigger event in a DPP/ CPP determination. Projects are identified and listed in advance, well supported by information in Asset Management Plans.

² Use-it-or-lose-it allowances are provided where the need for funding has been identified at the time of setting the DPP, but the timing or exact amount of expenditure is uncertain. Unspent allowances are returned.

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- Availability of skilled resources, noting that Powerco needed external consultants to support its CPP application (and Powerco is relatively well-resourced due to its size). This would be exacerbated if multiple EDBs were applying for a CPP
 - Aligning EDB and Commission expectations on what and how customer engagement /consultation is a meaningful part of the process and for post-approval reporting. For example, does ‘good’ equate to attendance at functions or events?
 - The Commission’s resources and the availability of verifiers could be a potential barrier if simultaneous CPP applications are made (eg 3+ applications).

E2. How do you view the effectiveness of the modification and exemption provisions in the current CPP IMs?

Answer:

E3. Keeping in mind the need for: (1) scrutiny of expenditure for large step-changes in investment associated with CPPs, (2) transparency of information, and (3) ability to consult for interested parties eg, consumers:

- **How might the current CPP IMs be refined to better promote the overarching objectives of the IM Review?**
- **Are there information or application requirements that you consider are not needed for the regime? If so, which ones are they, and why?**

Answer:

Taking a more pragmatic segmented customer approach based on weighting of informed groups and those with the most skin in the game will give better assurances around customer support and continued feedback. Customers should be part of the approval process but with a high level of flexibility around the ‘how’. De-weighting of SAIDI/SAIFI (so they aren’t the only measures of quality of service) would help recognise the short-term and the long-term IM objectives.

We had to provide some information that took time and pull together and verify, though the value to consumers and stakeholders was low, and arguably zero. The focus needs to be on getting comfortable with the critical areas.

E4. If you hold a view that our current suite of DPP reopeners does not fulfil a similar purpose as a single-issue CPP, please explain why, and provide examples of scenarios that would not be covered by existing DPP reopeners.

Answer:

The current suite of DPP reopeners can fulfil a similar purpose to a single-issue CPP if the expenditure cap is set at the correct level. Our response to question B1 provided an example of why the cap should be increased.
