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Commerce Commission
IM Review
Input Methodologies Manager

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Attention: Charlotte Reed

Tēnā koutou,

PRICE-QUALITY PATH IN-PERIOD ADJUSTMENT MECHANISMS WORKSHOP

Unison Networks Limited (Unison) welcomes the opportunity to provide feedback about in-period adjustment mechanisms following the workshop on 29 November 2022.

This feedback should be read in conjunction with Unison's expenditure forecasting submission.[1]

The key points discussed in **Appendix One** are:

a) Clarity of criteria, information, assessment, and timeframe must accompany existing and new reopener categories.
b) Reopener 'light' processes with short timeframes are essential and can be aligned to criteria that have simple information requirements.
c) Customised reopener caps per annum should be considered that reflect a percentage of expenditure forecasting for the electricity distribution business (EDB) or another proportionate measure.
d) Reopener categories that enable recovery of opex and capex (or a combination thereof) will achieve better outcomes, including provision for opex that is consequential to capex solutions.

Ngā mihi

Rachael Balasingam
REGULATORY MANAGER

[1] 16 December 2022.

Appendix One

A1.	**Would our proposed updated reopener process address any concerns you may have on the current perceived lack of clarity in the reopeners?**
	For the process and requirements to be fit-for-purpose, unjustified administrative burden must not outweigh the incentive. EDBs will benefit from clarity and consistency regarding: • the criteria to meet the reopener categories; • information requirements to evidence need; • the tests the Commission will apply; and • the timeframes for a decision on each type of application (certain criteria may involve simple evidence and therefore shorter assessment). For example, a 'reopener light' is preferable for foreseeable programmes of work, with uncertain timing. Evidence can be verified during the Regulatory Asset Management Plan process. The reopener criteria and timeframe should reflect a short period (say, 10 working days) for the Commission to certify the trigger has occurred based on the provision of agreed monitoring or other data.
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?**
	No comment.
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?**
	No comment.
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?**
	Yes, EDBs will benefit from being able to proactively gather and report relevant information. The Commission could provide templates or guidance about appropriate options analysis and business cases processes, and what a reopener 'light' requires vs a substantive reopener.
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.**
	See D1 below.

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.**
	\$2 million / 1% (the lesser of) threshold This depends on:

(a) whether DPP4 funds forecast growth adequately and EDBs are not consistently compromising renewal programmes to facilitate unplanned work; and

(b) the Commission's interpretation of the scope of reopener categories and the meaning of project and programmes of work.

Multiple individual small customer projects are expected to increase in DPP4, with significant funding consequences. Small customer projects could demonstrate a similar need and response. For example, small to medium industrial heat conversions are individually unforeseeable (in the sense customers will not identify their need in advance of DPP4). However, scenario planning establishes an understood increase in demand that may be significant in the period. Renewal works programmes may have to be significantly compromised or electrification delayed if small but similar customer projects are not funded, and no in-period adjustment mechanism responds to the cumulative total expenditure.

Programmes of work derived from electrification must be within scope. This includes upgrades or replacement of smaller infrastructure, but on a significant scale. For example, as a result of increasing uptake of DER, Unison is likely to need to upgrade LV circuits and replace feeders (once small industrial loads materialise).

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:

- **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?**

Cumulative smaller projects and programmes of work are discussed above. The $30 million cap is discussed below.

DPP3 is evidence of the increasing pace of unforeseen large customer connection growth. This has come with short timeframes from notification of the request to the assets being commissioned (recently for Unison this has been 6 – 18 months).

$30 million is already out-of-date for unforeseen major capex. Unison has experienced customer requests totalling approximately $45 million in major capex[2] in the last year (the timing of $15 million is being clarified). While the requests do not anticipate capitalisation in one year, this is an unprecedented level of requests and Unison may be faced with hitting the $30 million cap before the end of DPP3.

Two pragmatic methods to appropriately increase the $30 million cap may be:

- a global proportionate increase from DPP3 to DPP4 at a rate that reflects forecast electrification; or

[2] Net of capital contributions.

- a customised cap applying a percentage to individual expenditure forecasting (accepting then that appropriate entry to a CPP should be higher for larger EDBs).

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?

Unison supports the scenarios listed in slides 31 and 33.[3] It does not have a position on whether these are individual or broad categories (if there is subsequent clarity as discussed in A1 above).

Greater flexibility to adopt efficient opex solutions minimises the risk of capex being favoured and is in the long-term benefit of consumers and consistent with the Part 4 purpose.

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

As the Commission is aware, forecast increased loads may result from advancements in technology (for example, rapidly increased battery capacity for DER), Government policy driving changes in behaviour, and the cost of other energy sources.

There may be significant network or non-network solutions required at a rate that exceeds forecasts (for example, urgent upgrades to medium voltage circuits due to load materialising on LV circuits or small industrial sites).

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.

In addition to coverage of the scenarios set out in slides 31-33, the process for in-period adjustment mechanisms should minimise the risk to EDBs of agreeing to undertake customer work without certainty of funding.

Commercial arrangements need certainty and speed that does not parallel regulatory processes and timeframes. During DPP3, Unison has needed to confirm customer work and finalise commercial contracts without certainty a reopener application will be successful, if needed. The outcome is the EBD absorbing the risk of the subsequent IRIS impact. In-period adjustment mechanisms should seek to minimise this risk (to the benefit of consumers seeking electrification).

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.

No comment.

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:

[3] It has no comment on the category of "general uncertainty".

- **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?

Unison supports reopeners which respond to opex solutions and opex consequential to capex (noting the incremental increase in opex in DPP3).

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.

Unison expenditure forecasting includes upgrading all low voltage (LV) circuits. This is a significant and ongoing cost. LV visibility will inform understanding of the condition, performance and constraints of assets and demand.

If LV visibility demonstrates a more urgent need than forecast, a contingent project reopener may enable better asset management.

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

No comment.

D3. Do you consider that there may be value in us considering a range of in-period adjustment mechanisms, e.g., reopeners used for larger suppliers and as part of the DPP, use-it-or-lose-it allowances[2] for smaller suppliers, and if so, why?

Yes, in-period adjustment mechanisms should seek to minimise potential gaps or risks that will not be resolved by the DPP reset. This may justifiably involve different approaches for EDBs.

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?

Reopener categories for opex are discussed above. As explained in Unison's expenditure forecasting submission, increasing opex is a trend identifiable in DPP3.

In-period step-changes could enable all EDBs to benefit from incremental opex increases. Being pessimistic, if allowances are overly constrained in DPP4, renewal programmes will suffer and increasing maintenance costs will result and become evident in-period.

Questions relating to the CPP mechanism

These questions relate to content on workshop slides 39-42

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

CPPs are perceived as an expensive, time intensive exercise absorbing significant opex for an uncertain outcome. Unison considers scenario planning is a more efficient regulatory outcome. Irrespective of a DPP or CPP, residual uncertainty requires clear, comprehensive, and quick in-period adjustment mechanisms.

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

No comment.

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 e.g., 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?**

No comment.

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.

No comment.