

Notice to supply information to the Commerce Commission under section 53ZD of the Commerce Act 1986

To: Orion New Zealand Limited
PO Box 13896
Christchurch 8141

1. The Commerce Commission (Commission) requires Orion New Zealand Limited (Orion) to provide it with the information specified in this notice, issued under s 53ZD of the Commerce Act 1986 (the Act).
2. This notice replaces our s 53ZD notice issued on 3 October 2013. The only change from the notice that was issued on 3 October 2013 is to amend the content and timing of response for Schedule 2.
3. We need the information requested in this notice for the purpose of carrying out our functions and exercising our powers under Part 4 of the Act. Specifically, this information is required for the purpose of setting Orion's customised price-quality path for the period 1 April 2014 to 31 March 2019.

Background

4. This notice requests background analysis on points made by Orion in its submission of 20 September 2013 (Orion's submission) on the Commission's draft reasons paper for Orion's customised price-quality path (draft reasons paper). We are requesting this information to enable us to understand the statements made in Orion's submission for the purposes of making our final determination of Orion's customised price-quality path.
5. In this notice, unless otherwise indicated, information requested is limited to information in existence at the time Orion's submission was made to the Commission. The Commission therefore expects that information in existence at that time and covered by this notice will be readily available and will not require additional fresh analysis or additional certification by the Board of Directors of Orion.
6. Information requirements in this notice do not require any additional audit information.
7. Due to the deadline for release of our final determination on Orion's customised price-quality path, the Commission will be unable to consider information provided after the required date of response in making our final determination.

Interpretation

8. In this notice, unless the context otherwise requires, terms have the meaning as defined in the Electricity Distribution Services Input Methodologies Determination 2012.

Information requirements

9. In order to assist Orion in complying with this notice, we have used the same format as used for the information requests made of Orion prior to our draft reasons paper .

Trade-off between expenditure and reliability levels

10. Please provide the information set out in the attached Schedule 1: *Trade off between expenditure and reliability levels*.

FY2014 Half Year financial analysis

11. Please provide the information set out in the attached Schedule 2: *FY2014 Half Year financial analysis*.

Infometrics report

12. Please provide the information set out in the attached Schedule 3: *Infometrics report and other economic information*.

Asset replacement policies and procedures

13. Please provide the information set out in the attached Schedule 4: *Asset replacement policies and procedures*.

Cover letter

14. The information required by this notice must be provided under cover of a letter on Orion's company letterhead, signed by a person with the appropriate authority.

Information format

15. The information required by this notice must be supplied in 'unlocked' MS Excel or MS Word format as appropriate, so that we can easily transfer information (ie, able to be 'copied and pasted').

Publication of supplied information and confidentiality

16. The Commission may publish the information provided by Orion.
17. Any data or information provided to the Commission in response to this notice that Orion considers is confidential, must be provided in an appendix or separate electronic file that is clearly marked as confidential.
18. Orion must provide the Commission with reasons why the particular data or information is confidential.
19. In the event that the Commission agrees that this data or information is confidential, Orion must provide the Commission with both confidential and public versions of its disclosure. The responsibility for ensuring that confidential information is not included in a public version of a disclosure rests entirely with Orion.

Date of response

20. Orion must supply the information specified in the schedules to this notice to us by electronic delivery to our extranet site by no later than 5pm on 11 October 2013 (for Schedules 1 to 4, excluding Schedule 2 requirements #1 and #2), and 5pm on 21 October 2013 (for Schedule 2 requirements #1 and #2).
21. Should you have any queries on this notice, please send them to Keston Ruxton, Chief Adviser, Regulation Branch c/o regulation.branch@comcom.govt.nz.

Dated at Wellington: 9th October 2013

Yours sincerely,



Sue Begg

Deputy Chair

Schedule 1: Commerce Commission additional information requirement for Orion CPP Proposal	
Date requested by Commission:	2 October 2013
Required date of response:	11 October 2013
Commission contact person for responses to this information requirement:	Keston Ruxton
Commission contact person in respect of the content of this information requirement:	Grant Weston
Subject:	Trade-off between expenditure and reliability levels
Objective of information requirement:	<ol style="list-style-type: none"> 1. In its submission on the Commission's draft CPP decision Orion questioned whether consideration had been given to the consequential impacts on the quality standards due to reductions in expenditure allowances proposed in the draft decision, consistent with the method used to derive those standards in Orion's CPP proposal (paragraphs 182.3 and 365 of Orion's submission). 2. We note that other submitters on the draft decision have also referred to the linkage between expenditure levels and expected quality outcomes. 3. While submitters have used qualitative statements in expressing their views of this linkage, we wish to understand in detail the <i>quantitative</i> methodology that Orion has used to determine the expected quality outcomes for adjustments to expenditure (detailed by expenditure category) as summarised in aggregate by Orion at paragraph 383 of its submission.

Information requirement:	<ol style="list-style-type: none"> 1. Provide quantitative information that enables the Commission to understand how Orion reached the conclusions outlined in the table at paragraph 383 of Orion's submission. In particular, Orion's methodology, including models and applicable datasets, for determining and applying the linkage between changes in capital expenditure and operating expenditure (as input variables) and consequential changes in expected levels of quality (as an output). 2. Expenditure should be broken down by expenditure category so that the expected contribution to SAIDI and SAIFI is assessable at a capex category and opex category level, as follows: <ul style="list-style-type: none"> • major projects by project (i.e. CPP1 – 20); • replacement capex; and • opex, by the categories of operating expenditure as applied in the CPP proposal. 3. Quality levels should be expressed in units appropriate to SAIDI and SAIFI and cover the years FY15 – FY19. The information must also include the calculation of the mean and standard deviation and/or expected statistical distribution of these metrics and supporting information. 4. In order to expedite this request, cross-referencing of the calculations to the relevant commentary in Orion's submission on the draft decision will be sufficient. 5. This request requires only the details of Orion's calculations, and a brief description of the methodology of any models (which latter information we assume is already available as part of the specification for the models). 6. New commentary on the calculations is not required. Cross-referencing of the calculations to the relevant commentary in Orion's submission will be sufficient.
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Certification required:	<p>None. Given the timeframe available for this stage of the review, the Commission is seeking a fast response to this information request.</p> <p>Given Orion's submission indicates that Orion well-understands the expenditure/quality linkage and the quantitative effect of explicit trade-offs, the Commission expects that this information will be readily available and will not require additional fresh analysis or Board certification. This information requirement does not require any further audit of the information.</p>
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Schedule 2: Commerce Commission additional information requirement for Orion CPP Proposal	
Date requested by Commission:	2 October 2013
Required date of response:	11 October 2013 for information requirement #3 below, and 21 October 2013 for information requirements #1 and #2 below
Commission contact person for responses to this information requirement:	Keston Ruxton
Commission contact person in respect of the content of this information requirement:	Grant Weston
Subject:	FY2014 Half Year financial analysis
Objective of information requirement:	<ol style="list-style-type: none"> 1. In its submission of 20 September 2013 on the Commission's draft decision Orion refers to the proposed recovery of earthquake costs already incurred up to 31 March 2014. Orion states (at paragraph 15): <p><i>Under-recovery of these earthquake costs for the period to 31 March 2014 effectively transfers these costs to our council shareholders – and ultimately to the ratepayers of Christchurch. Under-recovery would effectively be a subsidy from ratepayers to consumers, something we oppose in principle and in particular in this case because the Christchurch City Council in particular has substantial financial commitments in rebuilding the wider infrastructure and civic facilities. In other words, the earthquake related costs to 31 March 2014 have already been incurred (they don't disappear regardless of the CPP decision) and the Christchurch City Council can ill afford to subsidise local consumers.</i></p> 2. In its CPP proposal Orion forecast the building blocks allowable revenue (BBAR) for FY2014. That BBAR total takes into account the forecast opex and the forecast commissioned capex for that year. The Commission adjusted the 2014 BBAR in its draft decision for a revised forecast of opex (Attachment N, paragraph N5 of the draft decision). 3. The Commission wishes to understand the trend in expenditure and reliability for the first half of

	<p>FY2014 relative to the forecasts applied in its draft decision, with particular reference to the categories of expenditure in which we made adjustments in the draft decision for the 2013 year.</p>
<p>Information requirement:</p>	<p><i>Note: to the extent that any estimation of numbers is required in order to meet this information requirement, this fact should be explicitly stated in the response with relevant details.</i></p> <ol style="list-style-type: none"> 1. Provide quantitative information on the following categories of expenditure for the six month period from 1 April 2013 to 30 September 2013 based on the 30 September 2013 monthly accounts: <ul style="list-style-type: none"> • Opex <ul style="list-style-type: none"> ○ CPP101: Scheduled Maintenance – Overhead lines 11kV and 400kV ○ CPP109: Scheduled Maintenance – Buildings, grounds and substations ○ CPP167: Network Management and Operations – Infrastructure ○ CPP160: General Management and Administration - Corporate 2. Provide brief comments on the reasons (such as seasonality of expenditure) that would explain why any one of the total amounts in any of the expenditure categories in 1. above is materially different (higher or lower) from one half of the forecast total applied in Orion’s CPP proposal for that category in respect of FY2014. 3. Provide an analysis of the SAIDI and SAIFI performance for the six months to 30 September 2013 and a comparison with the SAIDI and SAIFI levels proposed by Orion for the full year FY2014 (refer paragraph 373 of Orion’s submission).

Certification required:	<p>None. Given the timeframe available for this stage of the review, the Commission is seeking a fast response to this information request.</p> <p>The Commission expects that the information sought will be readily available and will not require additional fresh analysis or Board certification. This information requirement does not require any further audit of the information.</p>
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Schedule 3: Commerce Commission additional information requirement for Orion CPP Proposal

Date requested by Commission:	2 October 2013
Required date of response:	11 October 2013
Commission contact person for responses to this information requirement:	Keston Ruxton
Commission contact person in respect of the content of this information requirement:	Graham Phelan
Subject:	Infometrics report and other economic information
Objective of information requirement:	<ol style="list-style-type: none"> 1. In Orion's submission, in Attachment C, contains the Infometrics report of September 2013. Orion had asked Infometrics to review the draft decision's cost escalators and it had concluded that the draft decision underestimates the cost escalators (paragraph 23 of Orion's submission). 2. The Infometrics report reviewed the Commission's draft decision and the Commission's report from NZIER, developed a forecast model of Canterbury-specific construction costs, and provided its forecasts of costs out to 2019. 3. The Commission wishes to understand some of the detail in the Infometrics analysis. 4. Orion's submission (at page 29) includes a graph of Active ICPs by Network Region. We wish to understand how that graph was compiled and the data underlying it.
Information requirement:	<ol style="list-style-type: none"> 1. Provide the data used in Figure 6 (page 20) and Figure 7 (page 21) of the Infometrics report. 2. Provide a copy of <i>Stroombergen</i> (2006) cited in footnote 3 on page 9 of the Infometrics report. 3. In Orion's submission (page 70, paragraph 321) it references a Canterbury Construction Labour Index (CCLI). Please clarify:

	<ul style="list-style-type: none"> • what is meant by the CCLI index in relation to its original proposed estimates of labour cost escalation (based on local quantity surveyors) and the estimates produced by Infometrics respectively; and • whether Orion is referring to the Canterbury Construction Labour Cost Index (CCLCI) as produced by Statistics New Zealand. <p>4. Provide the data used to create the graph of Active ICPs by Network Region on page 29 of Orion's submission.</p>
Certification required:	<p>None. Given the timeframe available for this stage of the review, the Commission is seeking a fast response to this information request.</p> <p>The Commission expects that this information will be readily available and will not require additional fresh analysis or Board certification. This information requirement does not require any further audit of the information.</p>

Schedule 4: Commerce Commission additional information requirement for Orion CPP Proposal	
Date requested by Commission:	2 October 2013
Required date of response:	11 October 2013
Commission contact person for responses to this information requirement:	Keston Ruxton
Commission contact person in respect of the content of this information requirement:	Grant Weston
Subject:	Asset replacement policies and procedures
Objective of information requirement:	<ol style="list-style-type: none"> 1. In its submission on the Commission's draft CPP decision Orion has stated that undertaking programmes of replacements of complete switchboards within a substation will generate a lower lifetime cost than undertaking condition-only partial switchboard replacements at the levels proposed by the Commission in its draft decision (refer paragraphs 259 and 261). The Commission is seeking the information that underlies Orion's statements. 2. The Commission is also seeking further detailed information relating to the revised asset replacement programme set out in Orion's submission.
Information requirement:	<ol style="list-style-type: none"> 1. Provide the information, including quantitative analysis, which substantiates the comments made in paragraphs 259 and 261 of Orion's submission that replacing whole switchboards within a substation will generate a lower lifetime cost than undertaking replacement of individual switches on a condition-only basis at the levels proposed by the Commission in its draft decision. This should include: <ul style="list-style-type: none"> • policies or standard procedures in place that govern this approach to replacement planning and any cost benefit analysis in support of these policies or procedures previously undertaken by Orion; • any other analytics that have been undertaken

	<p>by Orion that show that this approach results in a lower lifetime cost than the condition-only unit-specific approach;</p> <ul style="list-style-type: none"> • identification of each substation where replacement of complete switchboards will generate lower lifetime costs; • a list of forecast switchgear replacements in the CPP proposal that are proposed to be replaced solely on the basis that they are part of a total switchboard renewal and that Orion has determined their replacement will result in lower lifetime cost. Provide the following information for each asset: Orion Asset ID, Category, Type, Model, Manufacture Year, Project Year, Health Index, Orion Ranking, Age at Replacement. Provide this data in Excel format in the format previously provided for this type of information. <p>2. Identify and provide information on all asset replacements omitted in error from the CPP proposal (see paragraph 269 and 270 of Orion's submission) but now included in Orion's revised asset replacement programme (example, \$3m for two 66kV/11kV transformers at Papanui).</p>
<p>Certification required:</p>	<p>None. Given the timeframe available for this stage of the review, the Commission is seeking a fast response to this information request.</p> <p>The Commission expects that the information sought will be readily available and will not require additional fresh analysis or Board certification. This information requirement does not require any further audit of the information.</p>