6 September 2018

Dane Gunnell
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By email to regulation.branch@comcom.govt.nz

Dear Dane

Submission on EDB IM Accelerated Depreciation

1. Orion welcomes the opportunity to have input on the Commission's proposed amendments to the EDB input methodologies for accelerated depreciation.

2. The proposed accelerated depreciation IM drafting clarifies the timing for a notice for a change in adjustment factor.

3. The proposed accelerated depreciation IM drafting clarifies that adjusted depreciation should be consistent with total depreciation.

4. The proposed drafting addresses adjustment for existing assets at the start of the regulatory period and that this applies to **all** existing assets.

5. Our understanding from your drafting is that EDBs will not be able to apply an adjustment factor to a class of asset, only to all existing assets as a one off opportunity. This is supported by the Topic paper 3: The future impact of emerging technologies in the energy sector page 41 point 97 "We note that our solution is not asset specific, but rather provides the option of shortening *average* remaining asset lives."

6. The Input methodologies review decisions- consolidated reasons paper- 20 December 2016 states on page 145 that "Assets commissioned after this *date [the first year of the new regulatory period]* will have asset lives which are in line with similar assets already in the RAB."

7. The Input methodologies review decisions- consolidated reasons paper- 20 December 2016 states on page 146 that "Because asset lives for forecast commissioned assets are already only an approximation (ie, 45 years irrespective of the type of asset), the change for new assets will not affect the way the DPP is reset. However, any approved reduction in asset lives will affect the depreciation amounts of both existing and commissioned assets reported under ID during the DPP regulatory period, and will therefore affect the RAB at the beginning of the following DPP period."

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8. Despite the wording proposed for Clause 4.2.2(4)(a) the treatment of new assets commissioned during the regulatory period is unclear. Given the definition for **existing assets**[1] our interpretation is that new assets enter the RAB during the regulatory period at the standard asset lives and no adjustment factor is applied. We suggest the Commission reviews if their intent here is clear in the drafting.

9. We remind the Commission that they have made a commitment to review the topic of economic stranding in the future- specifically;

    a. Topic paper 3: The future impact of emerging technologies in the energy sector page 38 point 93 "Given the uncertainty associated with this risk, we are open to reassessing regulatory settings in the future, should circumstances change materially."
    b. Topic paper 3: The future impact of emerging technologies in the energy sector page 39 point 94.4 "Allow suppliers to apply for this option more than once: there will be another IM review prior to the 2025 reset for EDBS, so this is something we can consider then, if needed. Also, it is possible to review the IMs part-way through the 7-year cycle, and we remain open to doing so if the need arises."

Concluding remarks

10. Thank you for the opportunity to provide this submission. We do not consider that any part of this submission is confidential. If you have any questions please contact Dayle Parris (Regulatory Manager), DDI 03 363 9874, email dayle.parris@oriongroup.co.nz.

Yours sincerely

Dayle Parris

Regulatory Manager

[1] Existing assets "means assets of an EDB for which an aggregate closing RAB value for existing assets is calculated for the base year."