Forecasting and incentivising efficient expenditure for EDBs

Infrastructure Regulation Branch
Online workshop

7 November 2022

Andy Burgess, General Manager
Matt Clark, Manager

Karakia to Open: Tūtawa Mai

Tūtawa mai i runga,
Tūtawa mai i raro,
Tūtawa mai i waho,
Tūtawa mai i roto,
Kia tau ai te mauri tū,
te mauri ora ki te katoa.
Hāumi e, hui e, taiki e!

I summon from above, below,
Within, from the outside
environment, to calm and
settle the vital inner essence,
the well-being of everyone.
Be joined together.
united!

Context for workshop

- There are high levels of predicted change in the electricity sector.
- In this workshop we are looking to engage with stakeholders on how this will be reflected in expenditure forecasts, how in-period adjustment mechanisms can account for change, and how incentives to ensure efficient investment during a regulatory period operate.

We present staff views only

- These slides and all matters we cover at the workshop are intended to facilitate discussion and reflect the preliminary thinking of Commission staff only.
- They do not reflect Commission positions or in any way prevent the Commission from taking different positions on the relevant matters.

Workshop objectives

- Stakeholders gain a better understanding of how we consider the regulatory regime works, or could work, with regards to forecasting, incentives for efficient investment, and in-period adjustment mechanisms.
- We better understand EDBs' and other stakeholders' priorities, challenges, opportunities and risks in these areas. In particular, we are looking to identify concerns where the regulatory regime is not appropriately understood or may not be fit-for-purpose.
- Our IM Review, targeted review of information disclosure requirements for EDBs (TIDR Tranche 2), and DPP4 (1 April 2025 – 31 March 2030) reset planning are better informed.
- The intention today within the workshop is to progress discussions. We expect to have continued engagement beyond this workshop on the relevant areas.

Approach to the workshop

- Workshop is being recorded.
  - We will publish the recording and our slide deck following the conclusion of the workshop given IM related discussions will be on the IM Review record, and also for the benefit of those who cannot attend.
- Expectations on participants:
  - On mute and camera off unless speaking
  - Sound and camera (if possible) on if invited to speak
- There will be opportunities for participants to contribute to the discussion. Please use the ‘raise hand’ function.
- We will also monitor the chat function during the workshop.
- If significant MS Teams connectivity issues, we will send an alternative Zoom link.

Workshop agenda

Time*	Session topic
1:00 – 1:25	Introduction; Context for the workshop
1:25 – 2:10	Expenditure forecasting
2:10 – 2:20	Break
2:20 – 3:10	Expenditure incentives
3:10 – 3:20	Break
3:20 – 3:50	Role of in-period adjustment mechanisms
3:50 – 4:00	Workshop wrap up and next steps

* Please note timings have been slightly revised from the agenda circulated earlier. We intend to stick to this timetable which may mean we need to cut short some discussion to ensure we cover all topics.

Context for workshop

Online workshop: Forecasting and incentivising efficient expenditure for EDBs

7 November 2022

Matthew Clark, Manager

Submitter views: Expenditure forecasting

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- The generic, low-cost approach for DPPs may not be suitable for addressing complex issues
- Commission's current expenditure setting approach for DPP resets is based on historical expenditure. For expenditure categories that are new ie, in response to emerging circumstances from the current external environment, there are no historical costs.
- Commission should consider a forward-looking expenditure setting approach to deal with these new investments. Note that the expenditure setting approach is not prescribed in the IMs.
- A forward-looking expenditure approach might minimise future volumes of in-period adjustments.
- Commission should start the DPP preparation early.

Submitter views: Expenditure incentives

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- Support for investigating "totex" as a solution to various potential issues with current approach to setting expenditure allowances.
- Increased flexibility could address "capex bias" and result in more efficient investment decisions between "build and own infrastructure and software" vs "buying non-network solutions and cloud-based services".
- Improved opex-capex flexibility may help harness the benefits of new technologies to deliver on policy outcomes in the energy sector.
- Consider creating "knowledge assets", eg, capitalising the costs of establishing LV network information (opex) and set rules so costs are appropriately recovered from beneficiaries over time. Expenses are expected to become more material as EDBs prepare for more DER, decarbonisation and the effects of climate change.
- Concerns that the IRIS mechanism is too complex and includes cost drivers outside of suppliers' control.
- Detailed implementation of the incentive mechanisms should be left for resets rather than IMs.

Submitter views: Role of in-period adjustment mechanisms

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- The CPP mechanism is complex, time and resource-intensive.
- Commission should consider the type and extent of in-period adjustment mechanisms and whether these cover possible event and expenditure categories.
- The reopener process is slow, consider improvements to speed up application and decision-making.
- Having mainly capex-based reopeners may not promote the adoption of more efficient solutions.
- Commission should consider if faster response by regulated businesses to uncertainty can be enabled by the use of other mechanisms like use-it-or-lose-it-allowances.
- Reopener thresholds could be improved.
- Resolve ambiguity and uncertainty in reopener provisions.

Commerce Commission – Illustrative Timings

	Nov-Dec 22	Jan- Mar 23	Apr-Jun 23	Jul- Sep 23	Oct-Dec 23	Jan- Mar 24	Apr-Jun 24	Jul- Sep '24	Oct-Dec '24
IM Review			Draft Decision (Q2)		Final Decision (Dec)				
Targeted ID Review	Tranche 1: Final Decision	Tranche 2: Work programme							
DPP Reset			Process Paper (Jun)		Issues Paper (Nov)		Draft Decision (May)		Final Decision (Nov)
Electricity Distribution Businesses									
ID Disclosures		AMP 2023-2033		ID Year-end 2023		AMP 2024-2034		ID Year-end 2024	
Other									
Other					Gas Transition Plan				NZ Energy Strategy
Electricity Authority	Updating the Regulatory Settings for Distribution Networks work programme								

End of Session

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Expenditure forecasting (Staff views)

Online workshop: Forecasting and incentivising efficient expenditure for EDBs

7 November 2022

Simon Wakefield, Principal Adviser

Sean McCready, Principal Adviser, Engineer

Purpose of the session

- Provide context for the role of the DPP, forecasting within a DPP reset and some challenges in using supplier forecasts.
- Outline questions and challenges which we'd like to engage further on to understand how asset management plans can support our expenditure forecasts for DPP4 (i.e. EDB DPP period commencing 1 April 2025), programme of summary and analysis and information disclosure requirements.

- We recognise the overlap of expenditure forecasting with other aspects of our regulatory regime.
- Stakeholder submission *"Important to develop an overall regulatory design and strategy that will provide the allowances when they are needed under changing investment characteristics. The design or approach taken to develop the DPP4 mechanisms will influence how many networks may need to move to another price path which in turn could influence the design of the CPP."*

Process outside of the session

We intend to request feedback following the workshop

- We don't expect all our, or your, questions to be answered during the session.
- We will be requesting feedback after the workshop on questions proposed
  - These may be revised following feedback received today
  - The process will also provide an opportunity for stakeholders to raise other issues they consider the Commission should consider in its planning for DPP4.

Context

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Uncertainty about future requirements and potential solutions has increased

- In addition to needing to make choices that deal with network condition and growth related challenges, EDBs are also faced with additional choices that are subject to greater uncertainty and may involve a wider range of solutions.
- Particular areas of challenge include Decarbonisation and the investment required to enable increased electrification, EV Penetration, DER and Non-network solutions and Resilience including climate change and cyber security.
- EDBs have represented that historical expenditure won’t be reflective of required future expenditure.
- We need to understand the extent to which asset management plans can support our expenditure forecasts in this environment.
- We are looking to better understand how we can get assurance that EDBs forecasts are robust in order to be able to use them for the DPP4 reset.

Role of the DPP

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DPPs are to be set in a relatively low-cost way, and are not intended to meet all the circumstances that a distributor may face.

- Section 53K of the Act : The purpose of default/customised price-quality regulation is to provide a relatively low-cost way of setting price-quality paths for suppliers of regulated goods or services, while allowing the opportunity for individual regulated suppliers to have alternative price-quality paths that better meet their particular circumstances.
- To meet the relatively low-cost purpose of DPP regulation, we must take into account the efficiency, complexity, and costs of the price-quality regime as a whole when resetting the DPP.
  - What this means in practice will vary over time and between sectors.
- The Commission has to balance competing objectives within the s52A purpose statement, whilst looking to promote the long-term benefits of consumers in setting a DPP.

Use of forecasting within a DPP reset

There is no restriction on ComCom using EDB forecasts in setting a DPP

- Under the current DPP settings we set allowable revenues based on the current and projected profitability of each EDB. We add together forecasts for each EDB over the DPP period using a building blocks allowable revenue ('BBAR') approach.
- There is no Input Methodology which specifies how we are required to consider forecast costs under a DPP.
- We are not fixed on using particular or previous DPP expenditure forecasting approaches for DPP4.

Approaches to forecasting expenditure

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At a high-level there are two options for expenditure forecasts

1. We rely on an EDBs own forecasts because we have sufficient confidence in them
   - We have confidence in AMP forecasts and the supporting evidence in the AMPs, potentially complemented / supplemented through information obtained via our s53ZD powers
2. We come up with our own forecasting methodology
   - For a DPP this is likely to be reasonably generic, and involve generic, regional and business-specific inputs
   - Where this relies on business-specific information, we would need sufficient confidence in that information (eg the business-specific 'steps' in a base-step-trend opex approach)

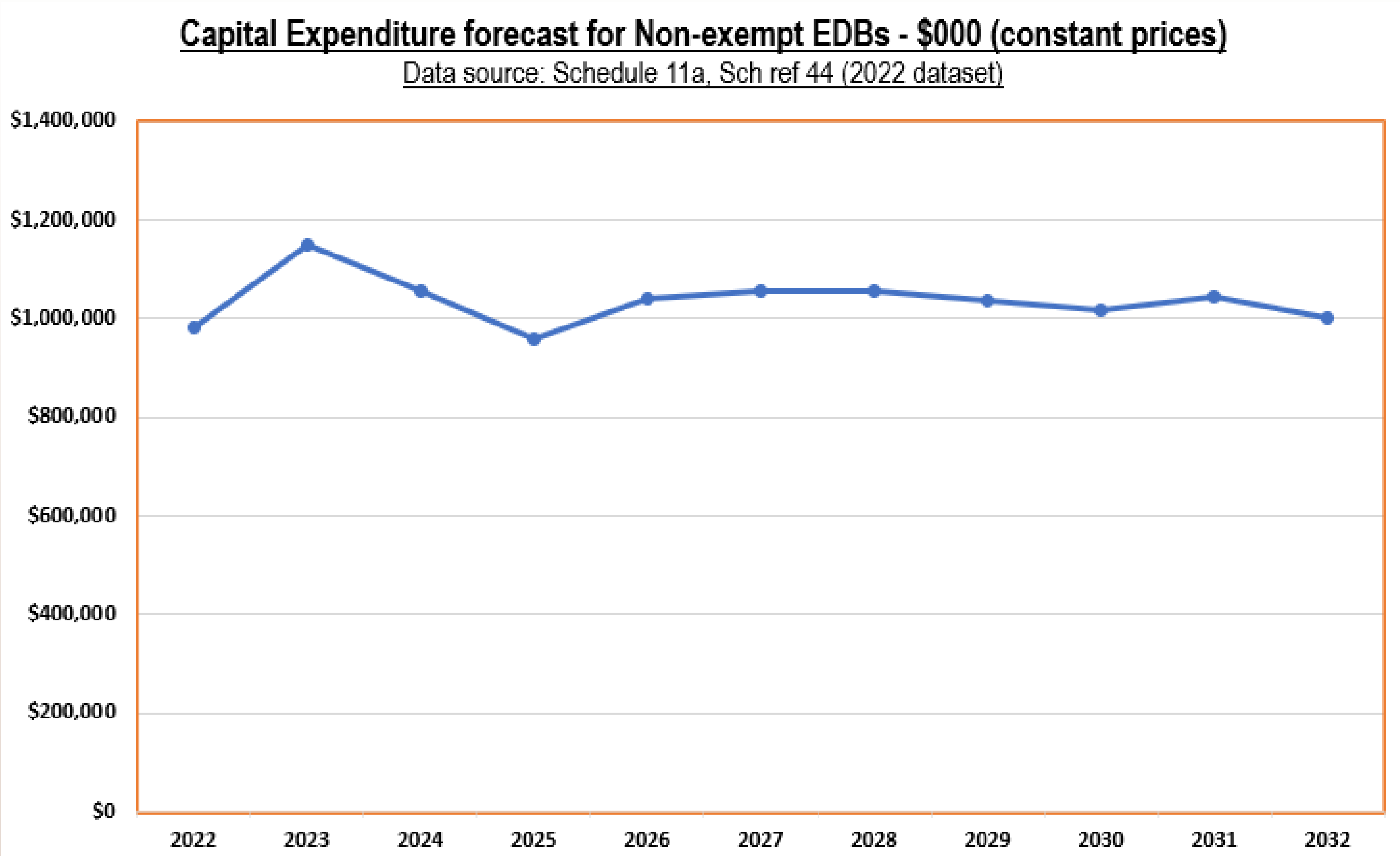
- Given the confidence in information disclosed may differ between categories of expenditure for a particular EDB, and between EDBs, we might end up with a mix of approaches
- Regardless of approach, there will still be situations where reopeners might be needed

Challenges in using forecasts

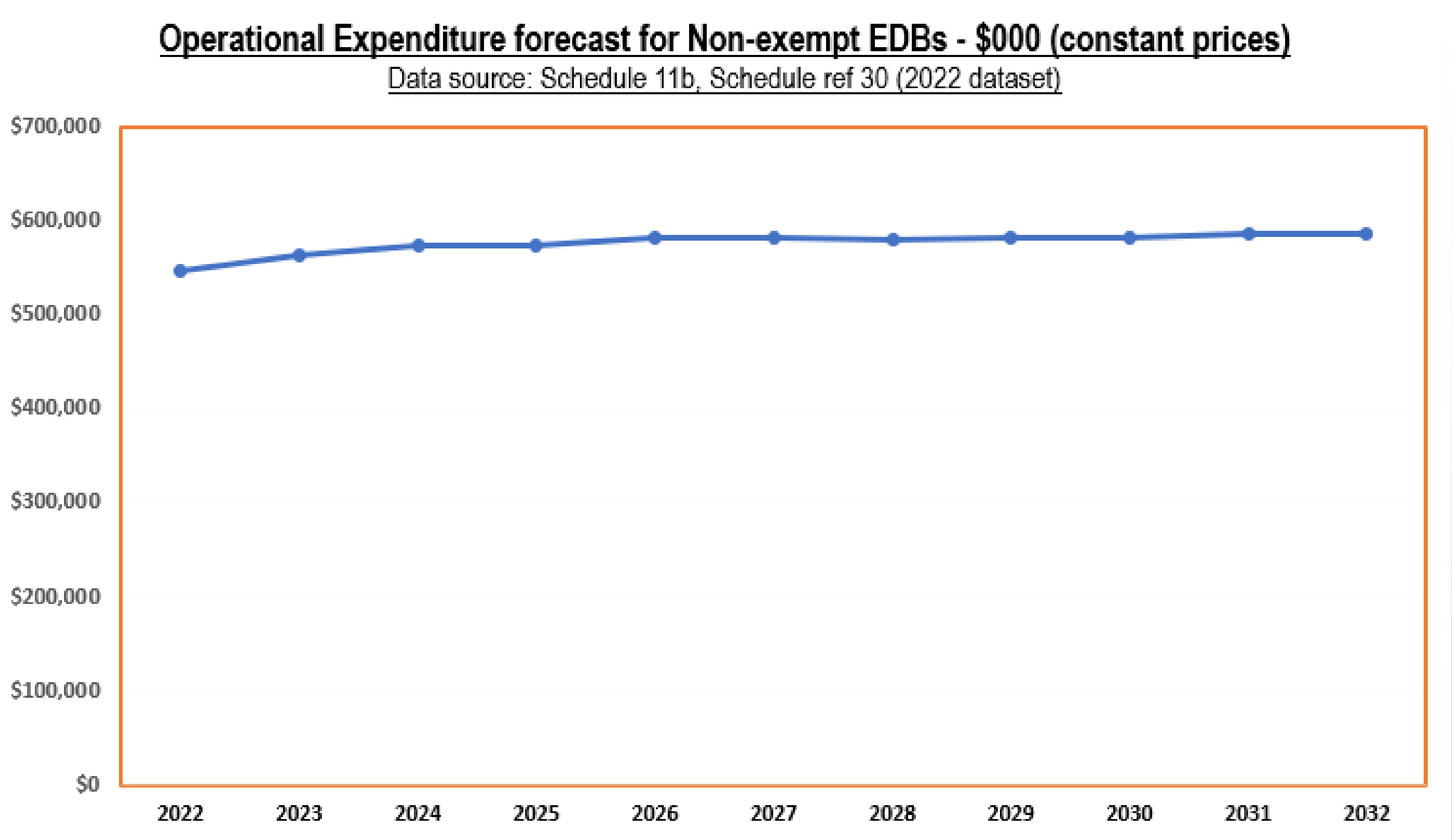
Examples of considerations in using forecasts (from DPP3 Reasons Paper)

- Given variation in the quality and content of AMPs, it may not be low-cost for us to undertake detailed scrutiny of the qualitative material in AMPs for the EDBs subject to the DPP
- EDBs are better placed to identify actual cost changes during a regulatory period due to their understanding of their networks. However:
  - Allowing EDBs to set their capex forecasts creates a risk of inflated forecasts, investments that might not be delivered, and excessive prices for consumers.
  - There might be an incentive for EDBs to only reveal step changes which result in higher allowances.
- EDBs can manage some of the risk of under-forecasting (re-openers, CPPs, incurring the expense and passing on a portion to consumers via the IRIS mechanism). Consumers can’t mitigate risk of over-forecasting.

2022 Forecast capex



2022 Forecast opex



Areas of focus we'd like to discuss today

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Areas of focus

- Confidence in forecast requirements
- Step changes and scenarios
- Confidence in expenditure plan
- Deliverability
- ID requirements

Confidence in forecast requirements

Confidence in forecast requirements: How are EDBs obtaining confidence in establishing the requirements they are forecasting to meet (demand, resilience, and reliability)?

Why are we interested in this question:

- DPP reset
  - We better understand what forms of assurance may be available to support EDB forecasts
  - We have improved visibility on categories of expenditure where we may be able to obtain confidence in EDBs' approach in a relatively low-cost manner
  - We are better informed on potential forecasting inputs we could use
- Summary & Analysis
  - We are better informed where targeting our summary & analysis work may assist EDB practice

Step changes and scenarios

Step changes and scenarios: Are there specific events or metrics that can be forecast and then observed that indicate that a step change in expenditure is required or an alternate scenario is playing out?

Why are we interested in this question:

- DPP reset
  - We are better informed on potential forecasting inputs we could use
  - We have improved visibility on categories of expenditure where EDBs have higher and lower levels of confidence in the robustness of their forecasting

- Summary & Analysis
  - We are better informed where targeting our summary & analysis work may provide insights on potential step changes or alternate scenario's

Confidence in expenditure plan

Confidence in expenditure plan: How are EDBs obtaining confidence that their proposed expenditure plan is the most effective and efficient solution for the forecast level of demand, resilience requirements, and reliability levels?

Why are we interested in this question

- DPP reset
  - We want to understand what forms of assurance are used to support EDB forecasts. Including understanding the variation of approaches EDBs use to gain confidence in their expenditure plan.
  - We have improved visibility on which categories of expenditure EDBs have greater confidence in within their expenditure plans.
- Summary & Analysis
  - We are better informed and understand the rigor that goes into finalising AMP expenditure forecast
  - We can target and trend expenditure in areas of lower confidence

Deliverability

Deliverability: How are EDBs getting confidence that their expenditure plans are deliverable, particularly if they involve a significant increase from historic levels?

Why are we interested in this question

- DPP reset
  - We better understand how EDBs will develop confidence in their delivery plans
  - We are better informed on how we could address a key risk that forecasts are inflated and the plans are not deliverable
- Summary & Analysis
  - We are better informed and understand the rigor that goes into ensuring the plans are deliverable to achieve the project outcomes stated within the Asset Management Plans

ID requirements

ID requirements: Do the AMP disclosures under the current ID requirements fully describe the forecasts, including uncertainty? If not, how could the requirements be improved?

Why this question

- DPP reset
  - We are better informed on disclosures we may receive in 2023, and have increased visibility of whether we may need targeted s53ZD notices to gather further information
- Information Disclosure
  - We are better informed for our TIDR tranche 2 work

Session end


MEDICAL CLINIC
BANK
BANK
LOANS
Cafe
Cafe
SUPERMARKET
GIFT SHOP
Tour Bus Services
MALL
FUEL
Closing Down Sale

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Expenditure incentives: totex and sandboxes

(Staff views)

Overview

- The problem
- Totex
- IRIS
- Innovation - Sandboxing

You told us…

A totex approach may address capex bias

"…there is a bias toward capex over opex. This is not because EDBs do not want to implement opex solutions. However, commissioned asset additions to the **RAB drives the return of and on capital** … and ultimately the maximum allowable revenue."

-- Orion

Current incentives penalise opex-based flexibility solutions

"Importantly, the **IRIS does not allow a network to be rewarded for capex cost savings that may occur in future regulatory periods**. While the IRIS is designed to make investment decisions agnostic about whether expenditure was made using opex or capex, the offsetting incentives and penalties only apply within the same regulatory period."

-- Wellington Electricity

A totex approach may increase flexibility between opex and capex

"While the opex and capex IRIS retention rates are currently the same, opex and capex expenditure **allowances are not substitutable**."

-- Vector

A totex approach may simplify the overall incentive regime

"[A totex approach] should also effectively improve the investment decision making process by … **simplifying the IRIS mechanism** with equal weighting for totex (capex + opex)"

-- Orion

Our understanding of the problem

Context

- Decarbonising the NZ economy is now a top societal priority
- Electrification is at the heart of decarbonisation
- Electricity lines services are at the heart of electrification
- Innovative/flexible non-network solutions are likely at the heart of efficient provision of electricity lines services
- We want balanced expenditure incentives, so the most efficient solutions are chosen
  - avoid network (capex) solutions where non-network (opex) ones are more efficient

Potential sources of capex bias

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- **Preference for RAB growth:** if RAB growth is seen as a proxy for company growth, capex solutions are favoured. Reinforced if regulatory WACC > company WACC
- **Asymmetry in regulatory expenditure scrutiny and incentives:** capex is typically not reexamined once capitalised; interaction of solutions' costs/benefits timing with regulatory incentives
- **Opex disadvantage – performance uncertainty:** capex solutions give businesses more direct control over assets and processes
- **Opex disadvantage – ability to earn return on capex options:** capex solutions earn a return on capital

Questions

- Do we understand the problem correctly?
- Are there other reasons why capex bias is a problem?
- Does our approach create a material financial capex bias (or the expectation of one)?
- Does this drive you to choose capex solutions over opex ones?
- How important are financial considerations when choosing between different solutions?

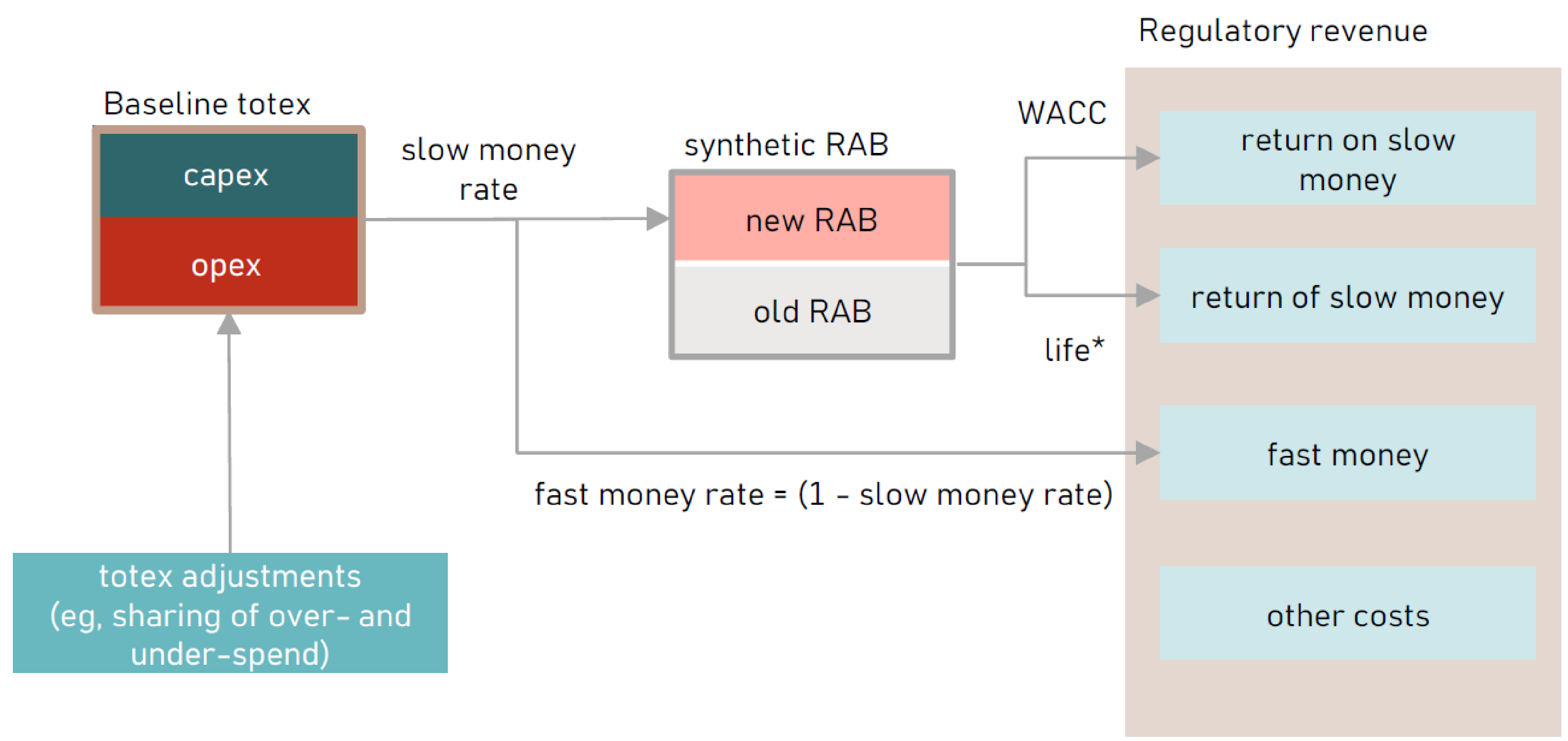
A totex approach

What a totex approach is

- An approach that removes the distinction between opex and capex, so that revenue allowances and incurred costs are based on a totex building block
- The regulator sets a fixed share of totex to be capitalised (ie, to enter the synthetic RAB) and the rest is expensed

How totex may address capex bias

- All expenditure is capitalised or expensed according to the fixed share (slow money rate). This removes a potential distortion in behaviour caused by the capex/opex distinction
- Note that capex bias may persist for other reasons, eg, performance certainty



Comparison

Potential cause of capex bias	Opex/capex approach	Totex approach
WACC + uplift > company WACC	Discuss	Discuss
Preference for capex solutions and RAB growth	Discuss	Discuss
Asymmetric regulatory expenditure scrutiny (past/future)	Discuss	Discuss
Opex performance disadvantage	Discuss	Discuss
Opex disadvantage (no explicit return on opex)	Discuss	Discuss

The question is whether…

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a) The capex/opex approach is generally fit-for-purpose under Part 4 and **is effective** in mitigating capex bias;

b) The capex/opex approach is generally fit-for-purpose under Part 4 but **would benefit from targeted improvements**; OR

c) A totex approach offers **sufficient net benefits** over the capex/opex approach to warrant a change.

Key considerations

- **Implementation costs:** new regulatory accounting rules and processes, suppliers' investment to implement financial systems, processes and policies
- **Interaction with ID:** need to consider what changes may be needed so that Commission and interested persons have access to accurate information to fulfill purpose of ID
- **PQ regulation:** need to determine what to include in IMs vs price path determinations, expenditure forecasting methodology
- **IMs:** changes needed to incorporate new accounting rules and processes
- **Is there a 'lighter touch' way of implementing totex?**

Questions

- Have we accurately understood the difference totex could make?
- Have we missed any considerations?
- Would it be effective? How would it influence businesses' decision making?
- Unintended consequences?
- Implementation timeframes?

Opex IRIS and capex IRIS

We heard from you that…

Themes

- IRIS and associated incentive schemes are too complex for regulated suppliers to effectively engage with.
- There is concern that the current incentive schemes can lead to a preference for capex.
- There is uncertainty regarding whether capex and opex incentives are in fact equivalent.
- Even though the incentives may be equivalent, capex and opex allowances are not substitutable, which can lead to issues with selecting the most efficient expenditure.

Quotes

- On complexity, Orion submitted that:

"The IRIS mechanism is complex and results in long term impacts into subsequent regulatory periods and is still not well understood by EDBs. It is challenging for EDBs to make trade-off decisions on expenditure needed to address the immediate needs of customers, legislative compliance and the expectation to provide open network access."

- On capex bias, Orion submitted that it:

"The IRIS impacts of Opex spending is also more sizeable whether in the favour of the customer or the EDB. The decarbonisation transition toward net zero will be better served by EDBs having incentives to invest in Opex solutions e.g. non-network alternatives, digitisation delivered through the cloud, customer-oriented flexibility services. The effect of the IRIS may also be to drive up debt funding for EDBs to meet customer connection pace and extent of decarbonisation. … We strongly believe the time has come for a Totex approach."

- On uncertainty regarding equivalence of capex and opex incentives, Unison submitted:

"It remains unproven under what circumstances capex/opex incentives are neutralised by the equalisation of incentive rates."

- On increasing the flexibility between opex and capex, Vector submitted:

"there needs to be more flexibility between opex and capex expenditure. While the opex and capex IRIS retention rates are currently the same, opex and capex expenditure allowances are not substitutable. This could incentivise the wrong investments (e.g. where an opex solution is more efficient but would incur IRIS penalties)."

Purpose of the current incentive schemes for EDBs

The capex and opex incentive schemes have 5 purposes:

- To incentivise making efficiency savings when they are identified, rather than optimizing the timing of expenditure
- To provide higher incentives to make cost savings (compared to natural incentive)
- To provide equivalence in incentive rates for capex and opex to prevent inefficient preferences for one type of expenditure over another
- To mitigate the incentive to 'load up' costs in the base year
- Ensure that temporary savings are shared between suppliers and consumers

Expenditure incentive schemes – Questions

- Do suppliers consider that there is not equivalence between the incentives on opex and capex?
    - Submitters have noted that allowances are not substitutable, but with equalised incentive rates the effect (over the long term) should make suppliers indifferent to moving between opex and capex solutions.
- If we were to remove IRIS, what would an appropriate alternative approach be that would best promote the Part 4 purpose?

Innovation - sandboxing

We heard from you that…

Quotes

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- ENA:
  "Introducing regulatory sandboxes is one way the IMs can encourage innovation, and these should be considered by the Commission."

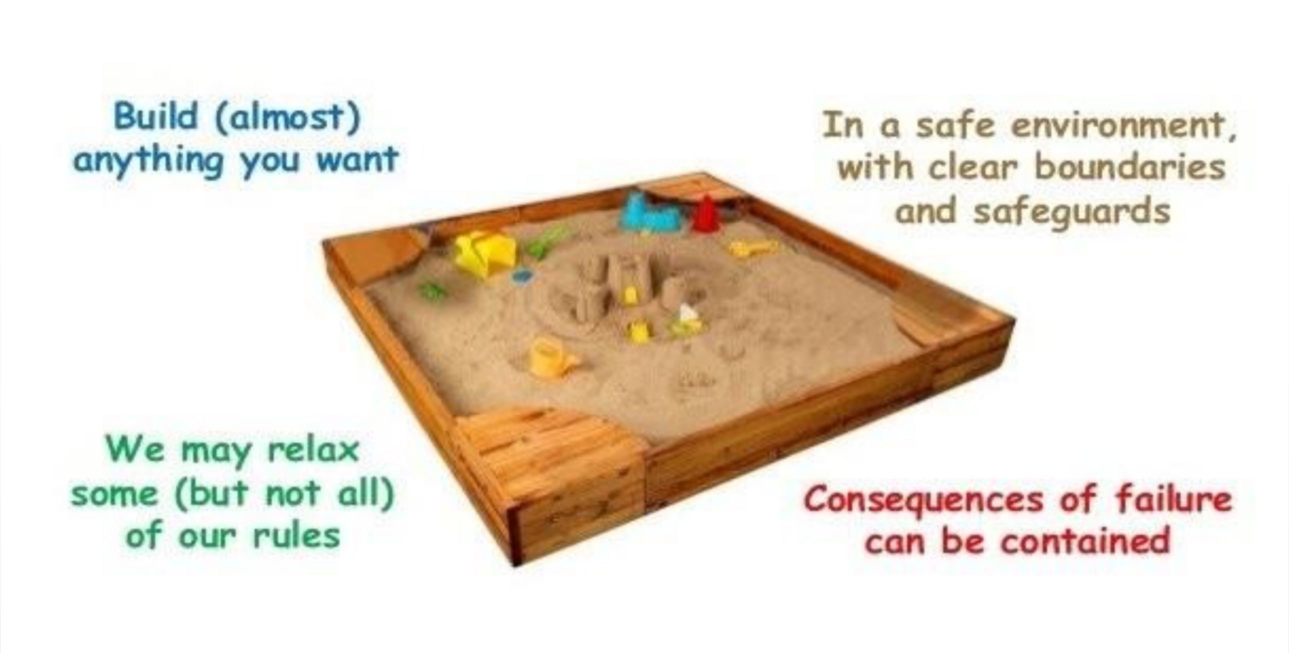
- Orion (and also Vector):
  "More flexible mechanisms such as regulatory sandboxes and access to in-period contingent allowances / wash-up adjustments are required."

What is the current situation

- EDB feedback:
  - possible reluctance to engage in too risky projects in terms of innovative activity
  - the Part 4 regulatory regime is not enabling innovation as much as it could, and more flexible mechanisms may be required

- **Potential option:**
  - Alongside options for mitigating capex bias we are considering how sandbox mechanisms could further encourage innovation

Regulatory sandbox



Overseas:

- AER & Ofgem:
  1. Provide advice and help without breaching regulatory rules.
  2. Provide waivers from specific regulatory rules for a set time period.
  3. Allow for testing of changes to existing regulatory rules.

Regulatory sandbox - Questions

- Should we consider developing a regulatory sandbox for EDBs?
- What are they key ingredients for a successful sandbox? Are they both non-financial and financial? How do they relate to the IMs?
- Are there any innovative projects you could not do because you encountered barriers in our regime? Did you feel the regulatory regime was not flexible enough to do the innovation?
- How would a sandbox encourage you to innovate more?
- How would it work?

Session end

The role of price-quality path in-period adjustment mechanisms (Staff views)

Workshop: Forecasting and incentivising efficient expenditure for EDBs

7 November 2022

Grant Weston & Sapna Nair

Purpose

- Today
  - We want to test with you whether anything major is missing from our key issues list for our IM Review of DPP reopeners and CPPs
  - We will briefly outline our plan for the reopener workshop we will hold on 29 November
- We are not seeking written feedback yet but will be inviting detailed feedback after the reopener workshop.
- Discussion questions will be circulated in advance of the reopener workshop.

Overview of slide deck

- Decision-making framework and tradeoffs.
- Key issues and current direction of our analysis.
- Current reopener coverage.
- Key questions to explore at late November 2022 reopener-specific workshop.

Decision-making framework and tradeoffs

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- Any changes to our in-period adjustment mechanisms will need to be consistent with our IM Review decision-making framework.
- While introducing additional in-period adjustment mechanisms might provide greater flexibility in dealing with outcomes of various scenarios, we are mindful of the following tradeoffs:
  - blurring the role of the DPP as the relatively low-cost generic approach to setting price-quality paths, and creating greater regime complexity and greater regulatory cost for stakeholders and us;
  - contributing to potentially less certainty for stakeholders, as the outcome of a reopener application is not guaranteed and is subject to approval discretion; and
  - the potential to disincentivise businesses to innovate and achieve efficiencies.

Key issues and current direction of analysis (1)

Key issue	Current direction of analysis
DPP Reopeners: Type and extent	• Mapping events and scenarios as described in submissions against our existing suite of reopeners (see slides 9-11), will discuss coverage at the late November workshop • Reviewing the features of Ofgem and AER reopeners as a comparison • Reviewing whether reopeners should include opex more consistently
DPP Reopeners: Process	• Considering a standardised process for reopener application, assessment and approval • Considering timeframes for application and evaluation • Considering consequential impacts of reopeners not only on capex and opex in price path but also on quality standards, quality incentive measures and expenditure incentive measures • Reviewing Ofgem and AER reopener processes for potential learnings • Considering multiple party single-application DPP reopeners
DPP Reopeners : Thresholds	• Considering the continued use of lower and upper value thresholds and whether these work well for businesses of varying sizes • Considering application of a single threshold for combined projects • Reviewing Ofgem and AER thresholds as a comparison

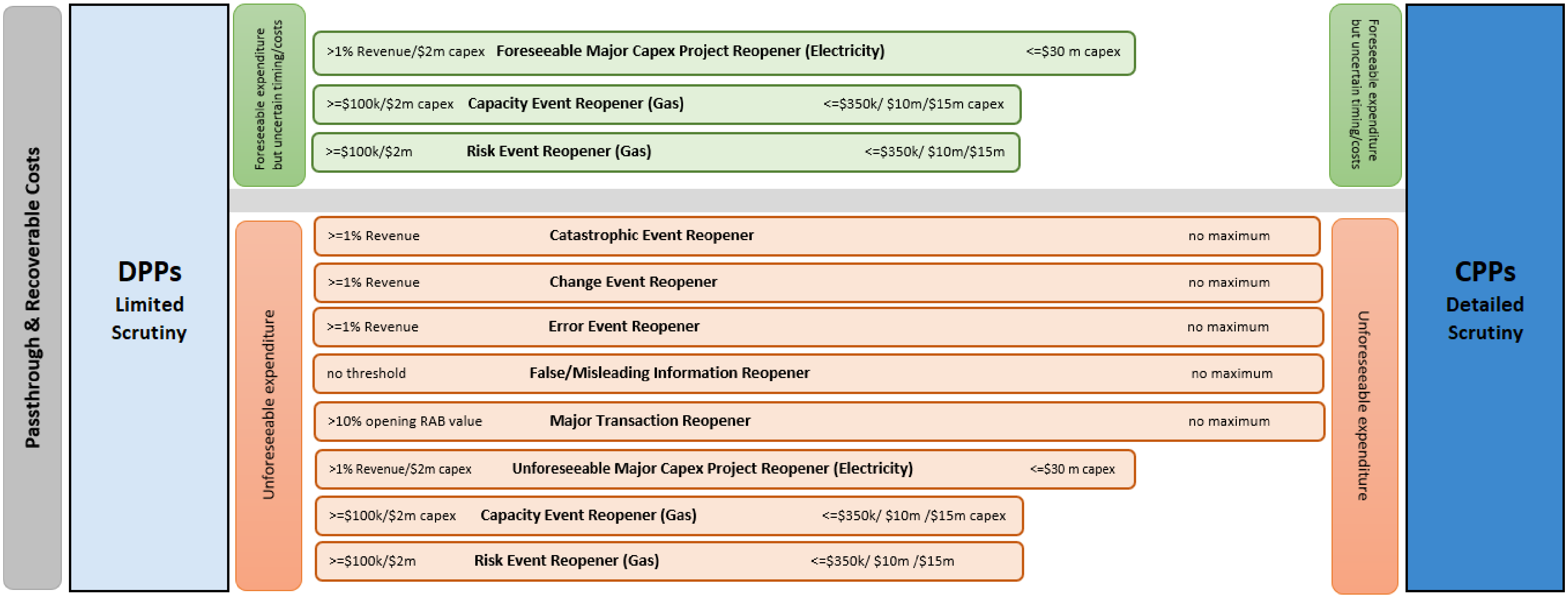
Key issues and current direction of analysis (2)

Key issue	Current direction of analysis
DPP Reopeners: Ambiguity and uncertainty in current reopener provisions	• Reviewing reopener provisions for consistency across sectors • Comparing with Fibre IM reopeners (Telecommunications Act, Part 6) • Resolving possible ambiguity in provisions
DPP Reopeners/CPP: Need for a single-issue CPP	• Lack of submissions advocating for a single-issue CPP. Our effort will focus on DPP reopeners instead.
Other mechanisms	• Considering the ongoing role of contingent allowances • Reviewing scenarios for inclusion under a wash-up mechanism • Considering other mechanisms in use by overseas regulators
CPP Improvements	• Considering whether we should allow for the application process and information requirements to be streamlined based on what is driving the need for a CPP application • Considering scope for multiple party single-application for CPPs (or reopeners)

Reopener coverage (1)

- We have visualised our existing reopeners in a ‘regulatory ecosystem’ diagram on slide 8.
- We have mapped scenarios raised in submissions against existing reopener provisions on slides 9 to 11.

Reopener coverage(2) – Regulatory ecosystem



Notes:

- This is a high-level summary only – please refer to the EDB, GDB and GTB IM determinations (including unconsolidated May 2022 gas sector IM amendments) for full details on our website.
- Only EDB and GPB DPP expenditure reopeners are shown.
- Where a sector is not specified, the reopener applies to both electricity and gas.

Reopener coverage(3)

General theme from submissions	Scenarios from submissions	Coverage by current reopener
DEMAND	Unexpected growth of connections	Unforeseeable & Foreseeable Major Capex Reopeners
	Increase in capacity	Unforeseeable & Foreseeable Major Capex Reopeners
	Incremental demand growth	Appears to be covered by Foreseeable Major Capex Reopener for demand growth above a certain threshold.
LEGISLATIVE AND REGULATORY CHANGE	Change arising from government policy	Once policy is passed into legislation, it is covered by the change event reopener
	Legislative change impacting others in the supply chain affects costs for businesses	Potential gap. Current change event reopener appears to be for changes that apply directly to businesses
MATERIAL CHANGES IN COST STRUCTURES	Escalating costs and supply chain delays	Material increases impacting system growth, connection and asset relocation project costs appears to be partially covered under the Foreseeable Major Capex Projects Reopener
	Inflation	This scenario is being considered in the Risk Allocation and Incentives topic.

Reopener coverage(4)

General theme from submissions	Scenarios from submissions	Coverage by current reopener
FLEXIBILITY SERVICES	Flexibility services	These scenarios are being considered in the Risk Allocation and Incentives topic. We are considering whether reopeners should include opex.
	Non wire solutions	
CLIMATE CHANGE	Climate change adaptation	Appears to be partially covered through Change Event Reopener. However, is this largely foreseeable and covered by business' forecasts?
	Increased expenditure on disaster readiness & additional reporting	Potential gap. However, is this largely foreseeable and covered by businesses' forecasts?
DIGITALISATION/DATA	Greater use of digitalisation & data	Potential gap. However, is this foreseeable and covered by businesses' forecasts?
CYBER RESILIENCE	Cybersecurity costs	Potential gap. However, is this foreseeable and covered by businesses' forecasts?

Reopener coverage(5)

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General theme from submissions	Scenarios from submissions	Coverage by current reopener
GENERAL UNCERTAINTY (NON-SPECIFIC)	Limited range of circumstances to cover unanticipated expenditure requirements	Unable to determine coverage due to lack of specificity

Key questions to explore at reopener-specific workshop(1)

- The purpose of the reopener-specific workshop is to seek more detailed feedback on our current direction of analysis.
- The workshop is scheduled for the week beginning 28 November. We intend for the specific workshop to be less formal and a two-way discussion.
- We will be seeking post-workshop submissions on our current direction of analysis and matters discussed at the workshop.
- Briefing material will be published in advance of the workshop for attendees.
- The next two slides provide a preliminary view (taster) of the questions we may want to explore at the workshop. The list of questions is not exhaustive and we invite suggestions.

Key questions to explore at reopener-specific workshop(2)

- Our emerging view is that the current reopeners appear to cover many of the events and scenarios you told us about in submissions. In the late November reopener workshop, we would like you to identify and tell us about potential areas where coverage could be better provided by an extension and/or refinement to the existing IMs.

- Our emerging view is that the current unforeseeable and foreseeable major capex reopeners already address the transition to increased electrification by providing for system growth, connection and asset relocation, except where a non-traditional opex solution is proposed. In the reopener workshop, we would like to hear from you specifically what other scenarios related to increased electrification need to be accounted for.

- Our current thinking is that we could codify a standardised process to be applied for the application, assessment and approval of reopeners rather than provide guidance separately. In the reopener workshop, we are keen to hear from stakeholders whether this standardised process would address the concerns raised in submissions on reopener processes.

Key questions to explore at reopener-specific workshop(3)

- How significant is the overhead to produce information for a reopener application? How much can suppliers repurpose or use existing business case justification information that they already produce internally for reopener applications?

- We heard through submissions that you consider CPPs to be onerous. We would like you to tell us specifically how our current CPP IMs could be refined, keeping in mind the need for scrutiny of expenditure for large step-changes in investment associated with CPPs.

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Workshop wrap up and next steps

Online workshop: Forecasting and incentivising efficient expenditure for EDBs

7 November 2022

Andy Burgess, General Manager

Summary and next steps

Next steps

- Expenditure forecasting
  - Our intention is to refine our questions following today's discussion and provide an opportunity for stakeholders to provide further feedback on these questions, and other areas stakeholders consider require a particular focus for DPP4.
  - We anticipate a close date for this would be 16 December 2022.
- Expenditure incentives
  - We intend to publish a list of specific questions we would like you to consider.
  - We intend to request feedback be provided within two weeks
- In-period adjustment mechanisms
  - Workshop on re-openers to further progress discussions

Karakia to close: Unuhia

Unuhia, unuhia
Unuhia ki te uru tapu nui
Kia wātea, kia māmā, te ngākau,
te tinana, te wairua i te ara takatā
Koia rā e Rongo, whakairia ake ki runga
Kia tina! TINA!
Hui e! TĀIKI E!

Draw on, draw on,
Draw on the supreme sacredness
To clear, to free the heart, the body,
And the spirit on mankind
Rongo, suspended high above us in heaven
Draw together! Affirm!

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Thank you for attending